ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

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Auditor of State
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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governors:

We have audited the accompanying financial statements of Arts and College Preparatory Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2004, 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 *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 Academy, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2005, 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery
Auditor of State

February 17, 2005

The discussion and analysis of Arts and College Preparatory Academy (the Academy) financial performance provides an overall view of the Academy's financial activities for the year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also view the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Net Assets were $136,053
- Total Revenues were $772,784
- Total Expenses were $751,213

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a financial whole, an entire operating entity.

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the Academy, presenting an aggregate view of the Academy's finances. In case of the Academy, there is only one fund presented.

Reporting the Academy as a Whole

Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

The view of the Academy as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the Academy's, current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The Academy as a Whole

Recall that the Statement of Net Assets provides the perspective of the Academy as a whole.

Table 1 provides a summary of the Academy's net assets for 2004 compared to 2003:

Table 1
Statement of Net Assets
(In Thousands)

	2004	2003
Assets		
Current Assets	$ 158.2	$ 116.5
Security Deposits	10.0	10.0
Capital Assets, Net of A/D	41.0	38.8
Total Assets	$ 209.2	$ 165.3
Liabilities		
Current Liabilities	$ 67.0	$ 42.1
Long-Term Liabilities	6.2	8.7
Total Liabilities	73.2	50.8
Net Assets		
Invested in Capital Assets, Net	32.3	-
Unrestricted	103.7	114.5
Total Net Assets	$ 136.0	$ 114.5

Total assets increased by $43,900. While cash and cash equivalents decreased by $39,616, total receivables increased by $59,260.

The net assets of the Academy increased by $21,571. An analysis of cash flows for operating activities in 2004 demonstrates cash payments for activities exceeding unrestricted cash receipts by $220,420. The net cash provided by noncapital financing activities was unable to cover the net cash decrease in operating activities.

Table 1 shows the changes in net assets for the year ended 2004. For comparison purposes, data from the June 30, 2003 year-end is reported to the right of the current year's figures.

Operating Activities

Salaries and fringe benefits comprise 64.5 percent of operating expenses. Interest expense was $504, 0.07 percent of expenses. Interest expense was attributable to the capital lease for a copier.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

Table 2
Statement of Revenues, Expenses, and Changes in Net Assets
(In Thousands)

	2004	2003
Operating Revenue		
Foundation Payments	$ 510.8	$ 290.3
Special Education	12.8	-
Donations	-	3.2
Total Operating Revenues	523.6	293.5
Operating Expenses		
Salaries	351.9	227.0
Fringe Benefits	133.0	56.5
Purchased Services	182.1	141.9
Materials and Supplies	42.3	61.2
Depreciation Expense	5.3	5.3
Other Operating Expense	36.1	25.6
Total Operating Expenses	750.7	517.5
Non-Operating Revenues and (Expenses)		
Grants – Federal	229.2	171.5
Grants – State	19.8	3.0
Interest Income	.1	.7
Interest and Fiscal Charges	(.5)	(.5)
Total Non-Operating Revenues and (Expenses)	$ 248.6	$ 174.7

The dependence upon state foundation revenues for operating activities is apparent. Although general revenues (i.e. interest) were used to fund operating activities, the Academy's general revenue is 0.01 percent of total revenue. The state foundation community, as a whole, is by far the primary support for the Academy.

The Academy's Funds

The Academy had total revenues of $772,784 and expenses of $751,213. The change in net assets for the year was an increase of $21,571. The Academy is analyzing operating and admissions procedures to determine appropriate steps to eliminate operating losses.

Capital Assets and Debt Administration

Capital Assets

At the end of 2004 the Academy had $41,035 (net of $12,435 in accumulated depreciation) invested in furniture, equipment, and leasehold improvements. Table 3 shows 2004 balances compared to 2003:

Table 3
Capital Assets at June 30
(Net of Depreciation, in Thousands)

	2004	2003
Furniture and Equipment	$ 9.2	$ 7.4
Leasehold Improvements	31.8	31.4
Totals	$ 41.0	$ 38.8

Acquisitions were greater than depreciation this year by $2,171. This was due to the Academy buying $7,450 in furniture, equipment, and leasehold improvements.

Debt

At June 30, 2004 the Academy had $8,759 in capital leases payable, $2,545 of which is due within one year. Table 4 summarizes Capital Leases outstanding.

Table 4
Outstanding Debt, at Year End

	2004	2003
Capital Leases	$ 8,759	$ 11,180
Total Outstanding Debt, at Year End	$ 8,759	$ 11,180

For the Future

In conclusion, the Academy has committed itself to financial excellence. In addition, the Academy's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. All of the Academy's financial abilities will be needed to meet the challenges of the future.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's, 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 questions about this report or need additional information contact Mr. Bill Soltis of Arts and College Preparatory Academy, 2202 S. Hamilton Rd., Columbus, OH 43232 or e-mail at acpa_ws@smtp.oecn.k12.oh.us.

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets:		
Current Assets:		
Cash and Cash Equivalents with Fiscal Agent	$	12,871
Receivables:		
Intergovernmental		118,558
Prepaid Items		26,777
Total Current Assets		158,206
Non-Current Assets:		
Security Deposits		10,000
Depreciable Capital Assets, (Net of Accumulated Depreciation)		41,035
Total Non-Current Assets		51,035
Total Assets	$	209,241
Liabilities:		
Current Liabilities:		
Accounts Payable	$	11,840
Accrued Wages and Benefits Payable		42,027
Intergovernmental Payable		10,562
Capital Leases Payable		2,545
Total Current Liabilities		66,974
Long-Term Liabilities:		
Capital Leases Payable		6,214
Total Liabilities		73,188
Net Assets:		
Investment in Capital Assets, Net of Related Debt		32,276
Unrestricted		103,777
Total Net Assets	$	136,053

See Accompanying Notes to the Basic Financial Statements

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Operating Revenues:	
Foundation Payments	$ 510,840
Special Education	12,805
Total Operating Revenues	523,645
Operating Expenses:	
Salaries	351,894
Fringe Benefits	132,984
Purchased Services	182,140
Materials and Supplies	42,280
Depreciation	5,279
Other Operating Expenses	36,132
Total Operating Expenses	750,709
Operating Loss	(227,064)
Non-Operating Revenues and Expenses:	
Grants - Federal	229,247
Grants - State	19,772
Interest	120
Interest and Fiscal Charges	(504)
Total Non-Operating Revenues and (Expenses)	248,635
Change in Net Assets	21,571
Net Assets at Beginning of Year	114,482
Net Assets at End of Year	$ 136,053

See Accompanying Notes to the Basic Financial Statements

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 523,645
Cash Payments to Suppliers for Goods and Services	(272,536)
Cash Payments to Employees for Services	(341,938)
Cash Payments for Employee Benefits	(129,591)
Net Cash Used for Operating Activities	(220,420)
Cash Flows from Noncapital Financing Activities:	
Cash Recevied from Grants - Federal	169,987
Cash Recevied from Grants - State	19,772
Net Cash Provided by Noncapital Financing Activities	189,759
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(6,150)
Cash Payments for Principal Payments	(2,421)
Cash Payments for Interest Payments	(504)
Net Cash Used for Capital and Related Financing Activities	(9,075)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	120
Net Cash Provided by Investing Activities	120
Net Increase in Cash and Cash Equivalents	(39,616)
Cash and Cash Equivalents at Beginning of Year	52,487
Cash and Cash Equivalents at End of Year	$ 12,871

(Continued)

Arts and College Preparatory Academy
Franklin County

Statement of Cash Flows
For the Year Ended June 30, 2004

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(227,064)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		5,279
Changes in Assets and Liabilities:		
Increase in Prepaid Items		(22,085)
Decrease in Accounts Payable		6,952
Increase in Accrued Wages Payable		13,150
Increase in Intergovernmental Payable		3,348
Total Adjustments		6,644
Net Cash Used for Operating Activities	$	(220,420)

See Accompanying Notes to the Basic Financial Statements

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING 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, which could adversely affect the Academy's tax-exempt status. The Academy is a general population high school, and will add grade 12 in 2005. 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 should serve as the Chief Fiscal Officer (See Note 12).

The Academy operates under the direction of a four-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 11 certificated full time teaching personnel who provides services to 98 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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 (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the Academy's accounting policies.

A. Basis of Presentation

Enterprise Accounting

The Academy's basic financial statements consist of statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

The Academy's 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 is that the costs 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 changes in net assets is appropriate for public policy, management control, accountability or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. 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 flow reflects how the Academy finances and meets its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the 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 Academy on reimbursement basis. Expenses are recognized at the time 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 five-year forecast, which is to be updated annually.

D. Cash and Investments

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. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

To improve cash management, all cash received by the Academy is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of $500. The Academy does not possess 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. Interest incurred during the construction of capital assets is also capitalized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets and Depreciation (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful live of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Leasehold Improvements	5
Furniture and Equipment	5

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

Amounts awarded under the above named programs for the year ended 2004 totaled $772,664.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by the Academy and expenses are reported in the year in which services are consumed.

H. Estimates

The preparation of the 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.

I. Security Deposits

The Academy entered into 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy presently has no restricted net assets.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Governors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during year 2004.

3. CHANGES IN ACCOUNTING PRINCIPLES

For year 2004, The Academy has implemented GASB Statement No. 34, “Basic Financial Statements - Management’s Discussion and Analysis - for State and Local Governments”; GASB No. 37"Basic Financial Statements for State and Local Governments: Omnibus”, GASB No. 38, “Certain financial Statement Note Disclosures’, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”. At June 30, 2004, there was no effect on beginning net assets as a result of implementing GASB 34, 37, 38 and Interpretation No. 6..

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management’s Discussion and Analysis. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

4. DEPOSITS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.”

At June 30, 2004, the carrying amount of the Academy’s deposits was $12,871 and the bank balance was $32,736. The bank balance was covered by federal depository insurance.

5. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Intergovernmental	
Federal Subgrant FY '04	$ 92,968
Title I '04 - Targeted Assistance	$ 24,132
Title IID '04 - Technology	1,458
Total Intergovernmental Receivables	118,558
Total Receivables	$ 118,558

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Furniture and Equipment	$ 10,361	$ 4,450	$ -	$ 14,811
Leasehold Improvements	35,659	3,000	-	38,659
Totals at Historical Cost	46,020	7,450	-	53,470
Less: Accumulated Depreciation	(7,156)	(5,279)	-	(12,435)
Capital Assets, Net of Debt	$ 38,864	$ 2,171	$ -	$ 41,035

7. RISK MANAGEMENT

A. Insurance Coverage

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 the year ended 2004, the Academy contracted with the O'Neill Group and had the following insurance coverage:

General Liability per single occurrence	$1,000,000
General Liability aggregate limit	2,000,000
Umbrella Liability per single occurrence	10,000,000
Umbrella Liability aggregate limit	10,000,000
Professional Liability per single occurrence	1,000,000
Professional Liability aggregate limit	1,000,000
Commercial Property ($1,000 Deductible)	400,000
Student Accident Liability per student ($500 Deductible)	10,000

The Academy does not own any buildings, but rents a facility located at 2202 South Hamilton Road, Columbus, Ohio. (See Note 15)

B. Workers' 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.

7. RISK MANAGEMENT (Continued)

C. Employee Medical, Dental and Vision Benefits

The Academy has contracted through an independent agent to provide employee medical, dental, and vision insurance to its full time employees who work 20 or more hours per week. The Academy pays a portion of the monthly premiums for all selected coverage (medical, dental and/or vision).

8. 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 10 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; 9.09 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 ended June 30, 2004 and 2003 were $9,950 and $1,933; 99.22 percent has been paid for the year ended 2004 and 100 percent has been paid for 2003. The unpaid contribution for 2004, in the amount of $78 is recorded as a liability.

B. State Teachers Retirement Systems (STRS)

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in part, by the state or any political subdivision thereof.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (STRS) (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’ public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (STRS) (Continued)

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who become disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Plan members were required to contribute 9.3 percent of their annual covered salary through June 30, 2003 and effective July 1, 2003 the member contribution rate increased to 10% and the Academy is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Academy's contributions for pension obligations to STRS for the years ended June 30, 2004, 2003, and 2002 were $38,157, $24,433, and $2,443; 87.09% has been contributed for 2004 and 100% for the years 2003 and 2002. $4,925 representing the unpaid contribution for 2004, is recorded as a liability.

STRS Ohio issues a publicly available financial report. Additional information or copies of STRS Ohio's 2003 *Comprehensive Annual Financial Report* may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by visiting the STRS Ohio Web site www.strsoh.org.

9. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS).

State Teachers Retirement System - The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare B premiums. Pursuant to the Revised Code (R. C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefits recipients pay a portion of the health care costs in the form of a monthly premium

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

9. POST-EMPLOYMENT BENEFITS (Continued)

The retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. Through June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $2,854 for the ended June 30, 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $2.8 billion at June 30, 2003 (the latest information available). For the year ended June 30, 2004, net health care costs paid by STRS were $352,301,000 and STRS had 108,294 eligible benefit recipients.

State Employees Retirement System - 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 period, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay had been established at $25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including surcharge, was $7,413 for the year ended June 30, 2004.

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, 2004 were $204,930,737 and the target level was $307.4 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits as $303.6 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

10. OTHER BENEFITS

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System/State Teachers Retirement System have an option to choose the Social Security System. As of June 30, 2004, the Academy has no employees or members of the governing board which contribute to the Social Security System.

11. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. Declared unconstitutional was the State's "school foundation program", which provides monetary support to the District's general fund. During fiscal year 2004, the Academy received $510,840 of school foundation support.

On May 11, 2000, the Supreme Court held the mandate of the Ohio Constitution that the State provide a "through and efficient system of common schools throughout the State" had yet been fulfilled. The Supreme Court identified seven major areas that warranted further attention and development by the General Assembly.

11. STATE SCHOOL FUNDING DECISION (Continued)

After several attempts by the State to remedy the defects in the system, the Court issued its latest opinion on September 6, 2001. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

> A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
>
> Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement.

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 decision is unconstitutional and vacated its decision of September 6, 2001. 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…"

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State's compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

As of the date of these financial statements, the Academy is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

12. FISCAL AGENT

The Academy entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the Academy from the State of Ohio. A total contract payment of $13,215 was paid during the year, and a liability in the amount of $942 was accrued as a liability for the year ended June 30, 2004.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

12. FISCAL AGENT (Continued)

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School'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 the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor 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.

13. PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 42,027
Property Services	132,328
Travel Mileage/Meeting Expense	654
Communications	7,131
Total Purchased Services	$ 182,140

14. CAPITAL LEASES - LESSEE DISCLOSURE

During the year ended 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, 2004.

Year Ending June 30,	Principal	Interest
2005	$ 2,545	$ 380
2006	2,675	250
2007	2,812	113
2008	727	6
Total Minimum Lease Payments	$ 8,759	$ 749

15. 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 six 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 increase in the 2003 to 2004 rental years. In the year 2004, it was twenty percent, due to larger than expected renovation cost to place the building in operation. This led to the April 2003 renegotiated agreement. For the year ended 2004, the payments made on the lease were $131,615. The following summarizes future minimum lease payments under the operating leases at June 30, 2004:

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

16. CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous 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 overall financial position of the Academy at June 30, 2004.

B. Pending Litigation

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

C. Fulltime Equivalency

The Ohio Department of Education conducts reviews on 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. ODE has conducted a review of the Academy’s 2004 student enrollment data and FTE calculations. For the year ended 2004, the Academy does not anticipate revenue adjustments based on the results of the review.

17. MANAGEMENT'S PLAN

The Academy had an operating loss of $227,064 and negative cash flow from operating activities of $220,420 for 2004. This operating loss is due to the day-to-day operations of the Academy being more than foundation and special education revenues.

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 2004, and plans to add 12th grade students in 2005. Also, the Academy is considering expanding the size of the facilities to hold more students. As of the date of this report, enrollment has increased by 52 students.

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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 South Hamilton Road
Columbus, OH 43232

To the Board of Directors:

We have audited the basic financial statements of Arts and College Preparatory Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2004 and have issued our report thereon dated February 17, 2005. 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 Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the Academy's management in a separate letter dated February 17, 2005.

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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

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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 Academy's management in a separate letter dated February 17, 2005.

This report is intended solely 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

February 17, 2005

SCHEDULE OF FINDINGS
JUNE 30, 2004

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

Finding Number	**2004-001**

Monitoring Controls

The Board of Governors did not review periodic financial reports of the Academy. The performance of other financial monitoring activities by the Board and the Academy's 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 help management to 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 affect 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; and
- Review of monthly bank reconciliations.

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	Monitoring Controls	No	Repeated as finding 2004-001

Auditor of State
Betty Montgomery

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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
MARCH 29, 2005