ARTS AND COLLEGE PREPARATORY ACADEMY FRANKLIN COUNTY

Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Mary Taylor, CPA
Auditor of State

Board of Trustees
Arts and Preparatory Academy
2202 South Hamilton Road
Columbus, Ohio 43232

We have reviewed the *Independent Accountants' Report* of the Arts and Preparatory Academy, Franklin County, prepared by Hemphill & Associates, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Arts and Preparatory Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 8, 2007

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ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY

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Hemphill & Associates
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the Arts and College Preparatory Academy, Franklin County, (the Academy) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Arts and College Preparatory Academy, Franklin County, as of June 30, 2006, and the respective changes in financial position and cash flows, thereof 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 28, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting or on compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Hemphill & Associates
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT
(CONTINUED)

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information that accounting principles generally accepted in the United States of America require. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Columbus, Ohio
February 28, 2007

Hemphill & Associates

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Arts and College Preparatory Academy's (the Academy) financial performance provides an overall view of the financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

- Total assets increased $53,471. That represents a 20.3% increase from the prior year. The increase is primarily due to increases in intergovernmental receivables at end of the fiscal year.

- Total liabilities increased $37,881 in fiscal year 2006, which represents a 35.6% increase from the prior year. The increases are primarily due to higher accrued wages and intergovernmental payable for the fiscal year end.

- Total net assets increased $15,590 in fiscal year 2006, which represents a 9.9% increase from the prior year, because of increases in operating revenues.

- The operating loss reported for fiscal year 2006 of ($235,356) was $143,650 more than the operating loss reported for fiscal year 2005 of ($91,706), or an increase of 156.6%.

Using this Annual Financial Report

This report consists of three parts: the Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity. Therefore, the entity-wide and the fund presentation information are the same.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the Academy's net assets. Also, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy assets and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the Academy's net assets for fiscal year 2006 compared to fiscal year 2005:

Table 1
Net Assets

	2006	2005
Assets		
Current Assets	$ 246,779	$ 183,355
Security Deposit	16,000	16,000
Capital Assets, Net	54,080	64,033
Total Assets	316,859	263,388
Liabilities		
Current Liabilities	143,458	102,765
Noncurrent Liabilities	727	3,539
Total Liabilities	144,185	106,304
Net Assets		
Invested in Capital Assets	50,541	57,039
Restricted	222,401	8,595
Unrestricted	(100,268)	91,450
Total Net Assets	$ 172,674	$ 157,084

Total net assets of the Academy increased by $15,590, or 9.2%, compared to the prior year. The increase is primarily due to higher operating revenues received during fiscal year 2006.

Also, as noted in Table 1 above, reported unrestricted net assets at June 30, 2006 decreased by $191,718 from those reported at June 30, 2005.

Table 2 shows the changes in net assets for fiscal year 2006 as compared to fiscal year 2005.

Table 2
Changes in Net Assets

	2006	2005
Revenues		
Operating Revenues:		
Foundation Payments	1,016,134	779,741
Poverty Based Assistance	22,758	11,666
Classroom Fees	232	628
Other Operating Revenues	5,123	1,826
Total Operating Revenues	1,044,247	793,861
Non-Operating Revenues:		
Federal and State Grants	252,734	113,004
Interest	162	113
Total Revenues	1,297,143	906,978
Expenses		
Operating Expenses:		
Salaries	643,552	445,706
Fringe Benefits	210,664	127,616
Purchased Services	361,551	218,073
Materials and Supplies	35,944	65,217
Depreciation	11,403	10,667
Other Expenses	16,489	18,288
Total Operating Expenses	1,279,603	885,567
Non-Operating Expenses:		
Interest and Other	1,950	380
Total Expenses	1,281,553	885,947
Increase in Net Assets	$ 15,590	$ 21,031

Operating revenues increased by $250,386 during fiscal year 2006. The increase was primarily due to an increase state foundation funding. Additionally, funding provided through Federal and State grants increased by $139,730 compared to prior year amount received.

Total expenses of the Academy reported for fiscal year 2006 increased by $395,606 from those reported for the previous fiscal year. Salaries and Fringe Benefits increased by $280,894; Purchased services expenses increased by $143,478; all other expenses decreased by ($28,766) from fiscal year 2005 amounts. The increases in expenses were directly related to the additional increases in revenues that were generated for the period.

Capital Assets

At June 30, 2006, capital assets of the Academy were $88,585 offset by $34,505 in accumulated depreciation, resulting in net capital assets of $54,080. Table 3 shows the categories of capital assets maintained by the Academy, net of accumulated depreciation, at June 30, 2006 and 2005.

Table 3
Capital Asset at June 30, 2006
(Net of Depreciation)

	2006	2005
Furniture, Fixtures, and Equipment	$ 39,056	$ 37,606
Leasehold Improvements	49,529	49,529
Total Capital Assets	88,585	87,135
Less Accumulated Depreciation:		
Furniture, Fixtures, and Equipment	(21,096)	(12,995)
Leasehold Improvements	(13,409)	(10,107)
Total Accumulated Depreciation	(34,505)	(23,102)
Capital Assets, Net of Accum. Depreciation	$ 54,080	$ 64,033

The net decrease of ($9,953) in total capital assets is due to addition of $1,450 of capital assets with an offset of current year depreciation of $11,403 for fiscal year 2006.

See Notes 2(F) and 5 of the notes to the basic financial statements for additional detailed information on the Academy's capital assets.

Debt

At June 30, 2006, the School had $3,539 in capital leases payable, $2,812 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt, at Year End

	2006	2005
Capital Leases Payable	$ 3,539	$ 6,214

For more information on the debt, see Note 12 to the basic financial statements.

Current Financial Issues

The Academy was formed in fiscal year 2002. 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. During the 2005-2006 school year, there were approximately 173 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for fiscal year 2006 amounted to $5,283 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens 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 Ms. Paula Lasley, Principal of Arts and College Preparatory Academy, 2202 South Hamilton Road, Columbus, Ohio 43232 or e-mail her at paulasley@yahoo.com.

ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2006

ASSETS	
Current Assets	
Cash & Cash Equivalent with Fiscal Agent	$ 58,611
Intergovernmental Receivables	165,683
Prepaid Items	22,485
Total Current Assets	246,779
Non-Current Assets	
Security Deposits	16,000
Capital Assets (Net of Accumulated Depreciation)	54,080
Total Non-Current Assets	70,080
TOTAL ASSETS	$ 316,859

LIABILITIES	
Current Liabilities	
Accounts Payable	$ 17,723
Accrued Wages and Benefits Payable	78,766
Intergovernmental Payable	44,157
Capital Leases Payable - Current Portion	2,812
Total Current Liabilities	143,458
Non-Current Liabilities	
Capital Leases Payable - Long Term Portion	727
TOTAL LIABILITIES	144,185

NET ASSETS	
Investment in Capital Assets (Net of Related Debt)	50,541
Restricted	222,401
Unrestricted	(100,268)
TOTAL NET ASSETS	$ 172,674

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, 2006

OPERATING REVENUES	
Foundation Payments	$ 1,016,134
Special Education Weighted Funding	12,659
Classroom Fees	232
Poverty Based Assistance	10,099
Other Operating Revenues	5,123
TOTAL OPERATING REVENUES	1,044,247
OPERATING EXPENSES	
Salaries	643,552
Fringe Benefits	210,664
Purchased Services	361,551
Materials and Supplies	35,944
Depreciation	11,403
Other Operating Expenses	16,489
TOTAL OPERATING EXPENSES	1,279,603
OPERATING LOSS	(235,356)
Non-Operating Revenues (Expenses)	
Federal Grants	226,954
State Grants	25,780
Interest	162
Other Non-Operating Expenses	(1,700)
Interest and Fiscal Charges	(250)
Total Non-Operating Revenues (Expenses)	250,946
Change in Net Assets	15,590
Net Assets at Beginning of Year	157,084
Net Assets at End of Year	$ 172,674

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, 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 882,570
Cash Received from Other Operating Sources	8,609
Cash Payments to Suppliers for Goods and Services	(425,077)
Cash Payments to Employees for Services & Benefits	(807,923)
Net Cash Used for Operating Activities	(341,821)
Cash Flows from Noncapital Financing Activities	
Cash Received from Grants - Federal	249,897
Cash Received from Grants - State	1,000
Net Cash Provided by Noncapital Financing Activities	250,897
Cash Flows from Capital and Related Financing Activities	
Cash Payment for Capital Acquisitions	(1,450)
Cash Payment for Principal Payments	(2,675)
Cash Payment for Interest Payments	(250)
Net Cash Used for Capital & Related Financing Activities	(4,375)
Cash Flows from Investing Activities	
Cash Received from Interest Earnings	162
Net Cash Provided from Investing Activities	162
Net (Decrease) in Cash and Cash Equivalents	(95,137)
Cash and Cash Equivalents, Beginning of Year	153,748
Cash and Cash Equivalents, End of Year	$ 58,611

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) for Operating Activities	
Operating Loss	(235,356)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	11,403
Changes in Assets and Liabilities	
(Increase) Decrease in Intergovernmental Receivables	(161,263)
(Increase) Decrease in Prepaid Items	2,702
(Increase) Decrease in Security Deposits	-
Increase (Decrease) in Accounts Payable	6,825
Increase (Decrease) in Accrued Wages	15,445
Increase (Decrease) in Intergovernmental Payable	18,286
Increase (Decrease) in Capital Lease - Current	137
Total Adjustments	(106,465)
Net Cash Used for Operating Activities	$ (341,821)

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 added 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 beginning the 2001-2002 academic school year. This contract expires June 30, 2007. Effective May 1, 2006 Lucas County Educational Service Center (the Sponsor) assigned their remaining rights and responsibilities to St. Aloysius. 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 that the Treasurer of the Sponsor should serve as the Chief Fiscal Officer (See Note 9).

The Academy operates under the direction of a five-member Board of Trustees. The Board of Trustees 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-certified and 20 certified full time teaching personnel, who provide services to 173 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy's significant accounting policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation – Enterprise Accounting

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

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 (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 net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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 statements of net assets. Net assets are segregated into investments in capital assets and unrestricted components.

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 transaction, 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 uses for a specified purpose; and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

C. Budgetary Process

The Academy must adopt a spending plan as set forth in the Ohio Revised Code Section 5705.391, which requires annual appropriation and annual revenue estimate.

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 bank accounts in the Academy's name.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For presentation on the financial statements, investments of the cash management pool and investments with the 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. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which services are consumed.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. 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.

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

Description	Estimated Lives
Leasehold Improvements	15 years
Furniture, Fixtures and Equipment	5 years
Computers	3 years

G. 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 statement of net assets reports $222,401 of restricted net assets. Of this amount, none is restricted by enabling legislation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

Eligibility requirements include timing requirements, which specify the fiscal 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 expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

Amounts awarded under the above-named programs for fiscal year 2006 totaled $1,291,626.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

J. Security Deposits

The Academy entered into a lease for the use of the building for the administration of the Academy during fiscal year 2002. At the lease, signing a $10,000 security deposit was given to the lessor. In fiscal year 2005, the Academy leased additional space for classroom facilities. An additional security deposit of $6,000 was given to the lessor. The total security deposit held by the lessor is $16,000.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” as amended by GASB Statement No. 40, “Deposit and Investment Risk Disclosures”.

The Academy maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At June 30, 2006, the book amount of the Academy’s deposits was $58,611. The bank balance of the Academy’s deposits was $110,578, which resulted in $10,578 being collateralized with securities

3. DEPOSITS AND INVESTMENTS (continued)

held in a single financial institution's pool of investments pledged to collateralize all public deposits. The Academy has no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the school; with a qualified trustee by the financial institution as security for repayment; or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited. It further requires that the monies be deposited in a financial institution whose market value shall be at least 105% of deposits being secured.

4. RECEIVABLES

Receivables at June 30, 2006 primarily consisted of intergovernmental receivables (e.g. foundation and federal grants). All intergovernmental receivables are considered collectable in full, due to the stable condition of state program, and the current year guarantee of federal funds. A summary of the principal receivables follows.

Intergovernmental Receivables	Amount
ODE Foundation (FTE)	$ 29,458
Federal School Lunch	8,555
IDEA Part B	2,452
Title II-A	1,730
Title II-D	313
WIA	123,175
Total Intergovernmental Receivable	**$ 165,683**

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 06/30/05	Additions	Deductions	Balance 06/30/06
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	$ 37,606	$ 1, 450	$ -	$ 39,056
Leasehold Improvements	49,529	-	-	49,529
Total Capital Assets Being Depreciated	87,135	1,450	-	88,585
Less: Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(12,995)	(8,101)	-	(21,096)
Leasehold Improvements	(10,107)	(3,302)	-	(13,409)
Total Accumulated Depreciation	(23,102)	(11,403)	-	(34,505)
Capital Assets, Net of A/D	$ 64,033	$ (9,953)	$ -	$ 54,080

6. 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 fiscal year ended 2006, the Academy contracted with the O'Neill Group and had the following insurance coverages:

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 12).

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.

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 100% of the monthly premiums for all selected coverage (medical, dental and/or vision).

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 defined benefit pension plan 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information.

7. DEFINED BENEFIT PENSION PLANS (continued)

That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan member are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The Academy rate is 14% of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contribution for pension obligation to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were $5,465; $5,393; and $9,950, respectively. 100% has been contributed for fiscal years 2006, 2005, 2004.

B. State Teachers Retirement Systems

The Academy contributes to 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, Ohio 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 fund 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.

7. DEFINED BENEFIT PENSION PLANS (continued)

A DB or Combined Plan member with five or more years credited services 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, 2006, plan members were required to contribute 10% of their annual covered salaries. The Academy was required to contribute 14%; 13% 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 Academy's required contribution for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005 and 2004 were $76,685, $50,120 and $38,157, respectively; 82.91% has been contributed for fiscal year 2006 and 100% has been contributed for fiscal year 2005 and 2004. $13,103 represents the unpaid contribution for fiscal year 2006. The balance outstanding is reflected as an intergovernmental payable.

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-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statue. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the healthcare costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $5,412 for fiscal year 2006.

8. POST EMPLOYMENT BENEFITS (continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS had 111,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. However, the surcharge is capped at 2% of each employee's salary. For the Academy, the amount contributed to fund health benefits during fiscal year 2006 was $1,344. 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.

Net health care costs for the year ending June 30, 2005 (the latest information available) were $178,221,113. The target level for the health care fund is 150% of projected claims less premium contributions for the next fiscal year. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. The number of participants eligible to receive benefits is 58,123.

9. 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 $19,993 was paid during the fiscal year, and $2,228 was accrued as a liability for the fiscal year ended June 30, 2006.

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

9. 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 the State Auditor's procedures for receiving and expending state funds;
- Assist the Academy in meeting all financial reporting requirements established by the State Auditor of Ohio;
- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but not commingle the funds with any funds 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.

10. PURCHASED SERVICES

For the period July 1, 2005 through June 30, 2006, purchased service expenses were payments for services rendered by various vendors as follows.

Professional and Technical Services	$ 111,011
Property Services	232,956
Communications	7,908
Other Purchased Services	9,676
Total Purchased Services	$ 361,551

11. CAPITAL LEASES - LESSEE DISCLOSURE

During the fiscal year ended 2006, the Academy entered into a capital lease for a Xerox Document Centre copier. 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.

11. CAPITAL LEASES - LESSEE DISCLOSURE (continued)

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, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 2,812	$ 113
2008	727	6
Total Minimum Lease Payments	$ 3,539	$ 119

12. OPERATING LEASES - LESSEE DISCLOSURE

The Academy entered into an operating lease in September of 2001 for rental of a building in which 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. For the fiscal year ended 2006, the payments made on the lease were $232,956. The following summarizes future minimum lease payments under the operating leases at June 30, 2006:

Year Ending June 30,	Payments
2007	$ 241,503
2008	251,157
2009	20,997
	$ 513,657

13. 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 operating fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Academy at June 30, 2006.

13. CONTINGENCIES (continued)

B. Pending Litigation
A suit was filed in U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administrating public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

C. Fulltime Equivalency
The Ohio Department of Education conducts reviews on enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For the fiscal year ended 2006, ODE final FTE adjustment for the Academy increase its foundation revenues by $29,458. This amount is included as intergovernmental receivable on the Statement of Net Assets.

14. CHANGE IN ACCOUNTING PRINCIPLES

A. Changes in Accounting Principles

For fiscal year 2006, the Academy has implemented GASB Statement No.42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*", GASB Statement No 46, "*Net Assets Restricted by Enabling Legislation*", and GASB Statement No. 47, "*Accounting for Termination Benefits*".

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the Academy financial statements for fiscal year 2006.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the Academy's financial statements for fiscal year 2006.

GASB Statement No. 47 establishes accounting and financial standards for termination benefits. This statement clarifies and established reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the Academy's financial statements for fiscal year 2006.

Hemphill & Associates
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Governing Board:

We have audited the financial statements of Arts & College Preparatory Academy, Franklin County, (the Academy) as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents and have issued our report thereon dated February 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine 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 2006-001. In a separate letter to the Academy's management dated February 28, 2007, we updated other matters related to internal controls we deemed immaterial.

Compliance and Other Matters

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

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
(CONTINUED)

opinion. The results of our tests disclosed one instance of noncompliance which we must report under *Government Auditing Standards*. This condition is described in the accompanying schedule of findings as item 2006-002. In a separate letter to the Academy's management dated February 28, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and Governing Board. It is not intended for anyone other than these specified parties.

Columbus, Ohio
February 28, 2007

Hemphill & Associates

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

FINDING NUMBER 2006-001

The performance of financial monitoring activities by the Governing Board and the Academy's management was not documented in the Board minutes.

Monitoring controls should be comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and 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.

Monitoring controls should assist management in detecting material misstatements in the financial and/or compliance transactions that may affect financial operations or presentation of financial information. Some of the monitoring controls may include, but are not limited to the following:

- Regular review of monthly budgeted and actual revenues/expenses;
- Review of key performance indicators;
- Review of unusual or significant or long outstanding items;
- Identification of unusual fluctuations;
- Monitoring of grants expenditures in accordance with grants requirements; and
- Review of monthly bank reconciliations

The Governing Board should develop and implement a monitoring control system to determine that material misstatements or misappropriations of assets do not occur. The Governing Board should take an active role in monitoring the financial records of the Academy to provide for increased accuracy and usefulness of the information reported.

FINDING NUMBER 2006-002

Ohio Revised Code Section 5705.391 (A)(B) – The board must adopt, as part of its annual appropriation measure, a "spending plan" (to be amended as the appropriations are amended). The Academy was unable to provide minutes of the governing board which documented the adoption of the spending plan for FY2006. The governing board should develop procedures that ensure that they annually approve the next year's "spending plan" at either their regular meeting or by holding a special meeting.

In addition, School districts must prepare five years' projections of revenues and expenditures as part of the spending plan. The plan must be submitted to the Department of Education upon the adoption of an annual appropriation measures, but no later than October 31, of any fiscal year.

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

For fiscal year ended June 30, 2006 or later, the revised 5-year projection must be filed with the Department of Education between April 1 and May 31 of each fiscal year [Ohio Administrative Code section 3301-92-04(F)]. The Academy has not filed a 5-year revised projection since their original filing in 2002. The Academy needs to file an updated, board-approved spending plan in accordance with the ORC.

ARTS & COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Action Taken; of Finding No Longer Valid; Explain:
2005-01	Monitoring Controls	No	Repeated as Finding 2006-001
2005-02	Board Approval of Spending Plan	No	Repeated as Finding 2006-002

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
MAY 22, 2007

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