

**ARTS AND COLLEGE
PREPARATORY ACADEMY
FRANKLIN COUNTY**

Basic Financial Statements

**For the Fiscal Year Ended
June 30, 2005**



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Accountants' Report* of the Arts and College Preparatory Academy, Franklin County, prepared by Hemphill & Associates, for the audit period July 1, 2004 through June 30, 2005. 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 College Preparatory Academy is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 7, 2006

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**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY**

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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, 2005, 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, 2005, 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 June 29, 2006, 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.



**INDEPENDENT ACCOUNTANTS' REPORT
(CONTINUED)**

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. 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.

Hemphill & Associates

Columbus, Ohio
June 29, 2006



**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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, 2005. 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 \$54,147. That represents a 25.8% increase from the prior year. The increase is primarily due to increases in intergovernmental receivables at end of the fiscal year.
- Total liabilities increased \$33,116 in fiscal year 2005, which represents a 45.2% 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 \$21,031 in fiscal year 2005, which represents a 15.4% increase from the prior year, because of increases in operating revenues.
- The operating loss reported for fiscal year 2005 of (\$91,706) was \$135,358 less than the operating loss reported for fiscal year 2004 of (\$227,064), or a decrease of 59.6%.

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 fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term

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FRANKLIN COUNTY**

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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. However, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy building 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 2005 compared to fiscal year 2004:

Table 1
Net Assets

	2005	2004
Assets		
Current Assets	\$ 183,355	\$ 158,206
Security Deposit	16,000	10,000
Capital Assets, Net	<u>64,033</u>	<u>41,035</u>
Total Assets	<u>263,388</u>	<u>209,241</u>
Liabilities		
Current Liabilities	102,765	66,974
Noncurrent Liabilities	<u>3,539</u>	<u>6,214</u>
Total Liabilities	<u>106,304</u>	<u>73,188</u>
Net Assets		
Invested in Capital Assets	57,039	32,276
Restricted	<u>8,595</u>	<u>-</u>
Unrestricted	<u>91,450</u>	<u>103,777</u>
Total Net Assets	<u><u>\$ 157,084</u></u>	<u><u>\$ 136,053</u></u>

Total net assets of the Academy increased by \$21,031 or 15.4% compared to the prior year. The increase is primarily due to higher operating revenues received during fiscal year 2005.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY**

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Also, as noted in Table 1 above, reported unrestricted net assets at June 30, 2005 decreased by \$12,327 from those reported at June 30, 2004.

Table 2 shows the changes in net assets for fiscal year 2005 as compared to fiscal year 2004.

Table 2
Changes in Net Assets

	2005	2004
Revenues		
Operating Revenues:		
Foundation Payments	779,741	510,840
Special Education	11,666	12,805
Classroom Fees	628	-
Other Operating Revenues	1,826	-
Total Operating Revenues	793,861	523,645
Non-Operating Revenues:		
Federal and State Grants	113,004	249,019
Interest	113	120
Total Revenues	906,978	772,784
Expenses		
Operating Expenses:		
Salaries	445,706	351,894
Fringe Benefits	127,616	132,984
Purchased Services	218,073	182,140
Materials and Supplies	65,217	42,280
Depreciation	10,667	5,279
Other Expenses	18,288	36,132
Total Operating Expenses	885,567	750,709
Non-Operating Expenses:		
Interest and Fiscal Charges	380	504
Total Expenses	885,947	751,213
Increase/(Decrease) in Net Assets	\$ 21,031	\$ 21,571

Operating revenues increased by \$270,216 during fiscal year 2005. The increase was primarily due to an increase state foundation funding. Additional, funding provided through Federal and State grants decreased by \$136,015 compared to prior year amount received.

Total expenses of the Academy reported for fiscal year 2005 increased by \$134,734 from those reported for the previous fiscal year. Salaries and Fringe Benefits increased by \$88,444; Purchased services expenses increased by \$35,933; all other expenses increased by \$10,357 from

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

fiscal year 2004 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, 2005, capital assets of the Academy were \$87,135 offset by \$23,102 in accumulated depreciation, resulting in net capital assets of \$64,033. Table 3 shows the categories of capital assets maintained by the Academy, net of accumulated depreciation, at June 30, 2005 and 2004.

Table 3
Capital Asset at June 30, 2005
(Net of Depreciation)

	2005	2004
Furniture, Fixtures, and Equipment	\$ 37,606	\$ 14,811
Leasehold Improvements	49,529	38,659
Total Capital Assets	87,135	53,470
Less Accumulated Depreciation:		
Furniture, Fixtures, and Equipment	(12,995)	(5,630)
Leasehold Improvements	(10,107)	(6,805)
Total Accumulated Depreciation	(23,102)	(12,435)
Capital Assets, Net of Accum. Depreciation	\$ 64,033	\$ 41,035

The net increase of \$22,998 in total capital assets is due to addition of \$33,665 of capital assets with an offset of current year depreciation of \$10,667 for fiscal year 2005.

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, 2005, the School had \$6,214 in capital leases payable, \$2,675 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt, at Year End

	2005	2004
Capital Leases Payable	\$ 6,214	\$ 8,759

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

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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 2004-2005 school year, there were approximately 141 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for fiscal year 2005 amounted to \$5,058 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's 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 & COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	2005
Assets	
Current Assets:	
Cash & Cash Equivalent with Fiscal Agent	\$ 153,748
Intergovernmental Receivables	4,420
Prepaid Items	25,187
Total Current Assets	183,355
Non-Current Assets:	
Security Deposits	16,000
Capital Assets (Net of Accumulated Depreciation)	64,033
Total Non-Current Assets	80,033
Total Assets	263,388
 Liabilities	
Current Liabilities:	
Accounts Payable	10,898
Accrued Wages and Benefits Payable	63,321
Intergovernmental Payable	25,871
Capital Leases Payable - Current Portion	2,675
Total Current Liabilities	102,765
Non-Current Liabilities:	
Capital Leases Payable - Long Term Portion	3,539
Total Liabilities	106,304
 Net Assets	
Investment in Capital Assets (Net of Related Debt)	57,039
Unrestricted	91,450
Restricted	8,595
Total Net Assets	\$ 157,084

See Accompanying Notes to the Basic Financial Statements

**ARTS & COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

	2005
Operating Revenues	
Foundation Payments	\$ 779,741
Special Education Weighted Funding	11,666
Classroom Fees	628
Other Operating Revenues	1,826
Total Operating Revenues	793,861
 Operating Expenses	
Salaries	445,706
Fringe Benefits	127,616
Purchased Services	218,073
Materials and Supplies	65,217
Depreciation	10,667
Other Operating Expenses	18,288
Total Operating Expenses	885,567
 Operating (Loss)	(91,706)
 Non-Operating Revenues (Expenses):	
Federal Grants	72,065
State Grants	40,939
Interest	113
Interest & Fiscal Charges	(380)
Total Non-Operating Revenues(Expenses)	112,737
 Change in Net Assets	21,031
 Net Assets at Beginning of Year	136,053
 Net Assets at End of Year	\$ 157,084

See Accompanying Notes to the Basic Financial Statements

**ARTS & COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

	2005
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	\$ 803,807
Cash Received from Other Operating Sources	2,453
Cash Payments to Suppliers for Goods and Services	(300,459)
Cash Payments to Employees for Services & Benefits	(555,459)
Net Cash Used for Operating Activities	(49,658)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Grants - Federal	186,203
Cash Received from Grants - State	41,711
Net Cash Provided by Noncapital Financing Activities	227,914
Cash Flows from Capital and Related Financing Activities:	
Cash Payment for Capital Acquisitions	(34,567)
Cash Payment for Principal Payments	(2,545)
Cash Payment for Interest Payments	(380)
Net Cash Used for Capital & Related Financing Activities	(37,492)
Cash Flows from Investing Activities:	
Cash Received from Interest Earnings	113
Net Cash Provided from Investing Activities	113
Net Increase (Decrease) in Cash and Cash Equivalents	140,877
Cash and Cash Equivalents, Beginning of Year	12,871
Cash and Cash Equivalents, End of Year	153,748
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) for Operating Activities	
Operating Gain (Loss)	(91,706)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	10,667
Changes in Assets and Liabilities:	
(Increase) Decrease in Prepaid Items	1,590
(Increase) Decrease in Security Deposits	(6,000)
Increase (Decrease) in Accounts Payable	(942)
Increase (Decrease) in Accrued Wages	21,294
Increase (Decrease) in I/G Payable	15,309
Increase (Decrease) in Capital Lease-Current	130
Total Adjustments	42,048
Net Cash Used for Operating Activities	\$ (49,658)

See Accompanying Notes to the Basic Financial Statements

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

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 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 the Sponsor should serve as the Chief Fiscal Officer (See Note 10).

The Academy operates under the direction of a four-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 3 non-certificated and 14 certificated full time teaching personnel who provides services to 141 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 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. The more significant of the Academy's accounting policies are described below.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

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.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

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, 2005, 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:

<u>Description</u>	<u>Estimated Lives</u>
Leasehold Improvements	5 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 presently has no restricted net assets.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

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 2005 totaled \$904,411.

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 lease additional space for classroom facilities. An additional security deposit of \$6,000 was given to the lessor. 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, 2005, the book amount of the Academy's deposits was \$153,748. The bank balance of the Academy's deposits was \$167,891, which resulted in \$67,891 being collateralized with securities

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

3. DEPOSITS AND INVESTMENTS (continued)

held in a single financial institution's pool of investments pledged to collateralize all public deposits. The Academy had 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 or 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 in the financial institution whose market value shall be at least 105% of deposits being secured.

4. RECEIVABLES

Receivables at June 30, 2005, 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 programs, and the current year guarantee of federal funds. A summary of the principal items of receivables follows:

<u>Receivables</u>	<u>Amount</u>
<u>Intergovernmental</u>	
Federal School Service	\$ 2,722
Title IID 2005	1,698
Total Intergovernmental Receivables	<u>\$ 4,420</u>

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Capital Assets Being Depreciation:				
Furniture, Fixtures, and Equipment	\$ 14,811	\$ 22,795	\$ -	\$ 37,606
Leasehold Improvements	38,659	10,870	-	49,529
Total Capital Assets				
Being Depreciated	53,470	33,665	-	87,135
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(5,630)	(7,365)	-	(12,995)
Leasehold Improvements	(6,805)	(3,302)	-	(10,107)
Total Accumulated Depreciation	<u>(12,435)</u>	<u>(10,667)</u>	<u>-</u>	<u>(23,102)</u>
Capital Assets, Net of A/D	<u>\$ 41,035</u>	<u>\$ 22,998</u>	<u>\$ -</u>	<u>\$ 64,033</u>

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

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 2005, 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 13).

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.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

7. DEFINED BENEFIT PENSION PLANS (continued)

The 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 2005, 10.57 of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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, 2005, 2004 and 2003 were \$5,393; \$9,950; and \$1,933, respectively, 100% has been contributed for fiscal years 2005, 2004, 2003.

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.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

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 disable are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to received the member's account balance.

For the fiscal year ended June 30, 2005, 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, 2005, 2004 and 2003 were \$50,120, \$38,157 and \$24,433, respectively; 83.5% has been contributed for fiscal year 2005 and 100% has been contributed for fiscal year 2004 and 2003. \$9,860 represents the unpaid contribution for fiscal year 2005. 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, 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$3,771 for fiscal year 2005.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

8. POST EMPLOYMENT BENEFITS (continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, 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, 2005, 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 2005, the minimum pay was established at \$27,400. 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 2005 fiscal year, the Academy paid \$5,885 to fund health care benefits, including the surcharge.

Net health care costs for the year ending June 30, 2005 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, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

9. STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

10. 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 \$19,238 was paid during the fiscal year, and a liability in the amount of \$1,461 was accrued as a liability for the fiscal year ended June 30, 2005.

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

- 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.

11. PURCHASED SERVICES

For the period July 1, 2004 through June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 61,101
Property Services	147,909
Travel Mileage/Meeting Expense	103
Communications	5,975
Transportation Services	105
Other Purchased Services	<u>2,880</u>
Total Purchased Services	<u>\$ 218,073</u>

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

12. CAPITAL LEASES - LESSEE DISCLOSURE

During the fiscal year ended 2005, 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, 2005.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 2,675	\$ 250
2007	2,812	113
2008	<u>727</u>	<u>6</u>
Total Minimum Lease Payments	<u>\$ 6,214</u>	<u>\$ 369</u>

13. 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. For the fiscal year ended 2005, the payments made on the lease were \$148,370. The following summarizes future minimum lease payments under the operating leases at June 30, 2005:

<u>Year Ending June 30,</u>	<u>Payments</u>
2006	\$ 154,806
2005	161,002
2008	167,438
2009	<u>13,998</u>
	<u>\$ 497,244</u>

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

14. 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, 2005.

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 was heard on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred on November 29, 2005. 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. As of the date of this report being issued, ODE has conducted a review of the Academy's 2005 student enrollment data and FTE calculations. For the fiscal year ended 2005, ODE final FTE adjustment for the Academy decrease its foundation revenues by \$12,400 based on the results of this review.

15. SUBSEQUENT EVENTS

During fiscal year 2006, the Academy entered into a contract with Saint Aloysius Orphanage of Cincinnati, Ohio to sponsor the Academy during the 2005-2006 school year.

Effective June 30, 2006, the CEO/Principal resigned his position with the Academy.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
Notes to the Basic Financial Statements
June 30, 2005**

16. CHANGE IN ACCOUNTING PRINCIPLES
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During fiscal year 2005, the Academy has implemented GASB Statement No. 40 “Deposit and Investment Risk Disclosures – an amendment of GASB Statement No.3”.

GASB Statement No. 40 creates new disclosures requirements for deposits and investments related to credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the Academy financial statements for 2005.



**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, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents and have issued our report thereon dated June 29, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 initiate, record, process, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of finding as item 2005-001. In a separate letter to the Academy's management dated June 29, 2006, we updated other matters related to internal controls we deemed immaterial.

A material weakness is a reportable 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 caused by error or fraud 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



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

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 believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings as item 2005-002. In a separate letter to the Academy's management dated June 29, 2006, 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
June 29, 2006

A handwritten signature in blue ink that reads 'Hemphill & Associates'.

**ARTS & COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

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 2005-002

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 FY2005. 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 5 years projections of revenues and expenditures as part of the spending plans. 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.

**ARTS & COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2005**

For fiscal year ended June 30, 2005 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 Admin. Code section 3301-92-04(F)). The Academy's 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, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Action Taken; of Finding No Longer Valid; Explain:
2004-01	Monitoring Controls	No	Repeated as Finding 2005-001



**Auditor of State
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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
SEPTEMBER 19, 2006**