ARTS AND SCIENCES PREPARATORY ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE PERIOD OF SEPTEMBER 1, 2005 THROUGH JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

ARTS AND SCIENCES PREPARATORY ACADEMY
CUYAHOGA COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Arts and Sciences Preparatory Academy
Cuyahoga County
1140 Euclid Avenue
Cleveland, Ohio 44115

To the Board of Directors:

We have audited the accompanying basic financial statements of the Arts and Sciences Preparatory Academy, Cuyahoga County, Ohio (the Academy), as of and for the period ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Arts and Sciences Preparatory Academy, Cuyahoga County, Ohio, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the Academy had a deficit net asset balance of ($55,343) and operating loss of ($63,768) as of June 30, 2006 and experienced certain financial difficulties during the year. Note 17 describes management's plans regarding these issues.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2008, 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 and 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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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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 15, 2008

The discussion and analysis of the Arts and Sciences Preparatory Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

Highlights

The Academy finished its first year of operations during fiscal year 2006 serving kindergarten. Enrollment varied during the year but averaged 18 students.

Key highlights for the period September 1, 2005 through June 30, 2006 are as follows:

- Net Assets decreased $55,343.
- Operating Revenues accounted for $168,953 of the Academy's funding.
- The Academy had a net operating loss of $63,768 and $10,262 of the operating loss was funded by non-operating federal grants. The Academy was able to fully utilize the federal grant allocations for fiscal year 2006.

Overview of the Financial Statements

The financial report consists of three parts-management discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the academy. Enterprise accounting uses a flow of economic resource measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the statement of position of the Academy. The statement of revenues, expenses, and changes in net assets present increases (e.g., revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Financial Analysis of the Academy as a Whole

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from the governmental-wide financial statements is included in the discussion and analysis.

The following table represents the Academy's condensed financial information for the period ended 2006 derived from the statement of net assets and the statement of revenues, expenses and changes in net assets.

Net Assets

Assets	
Current Assets	$17,537
Capital Assets, Net	51,395
Total Assets	68,932
Liabilities	
Current Liabilities	90,032
Non-current Liabilities	34,243
Total Liabilities	124,275
Net Assets	
Invested in Capital Assets, Net of Related Debt	(2,705)
Restricted for Other Purposes	3,000
Unrestricted	(55,638)
Total (Deficit) Net Assets	$(55,343)

Net assets decreased $55,343 in the Academy's initial year of operations primarily as a result of startup cost for opening a Charter School with a program that would be attractive to the families of the area and offering services and student staff ratios necessary to accelerate learning of students faster than the traditional single grade level gains. Management anticipates that the Academy will have an increase in net assets for 2007 as a result of increased enrollment and reduced opening costs compared to year one. The initial loss is typical for a new Academy, most of which may not typically achieve positive net assets until the second or third year of operations due to significant start-up costs.

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006:

Changes in Net Assets for the period ended June 30, 2006

Operating Revenues:	
Foundation Receipts	$168,953
Total Operating Revenues	168,953
Operating Expenses:	
Building	13,483
Purchased Services	171,740
Depreciation	2,705
General Supplies	24,522
Other Operating Expenses	20,271
Total Operating Expenses	232,721
Operating Loss	(63,768)
Non-operating Revenues:	
Federal Restricted Grants	10,262
Interest Expense	(1,837)
Total Non-operating Revenues and Expenses	8,425
Change in Net Assets	(55,343)
Net Assets Beginning of Year	-
Net Assets (Deficit) End of Year	$(55,343)

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the academy's management company for certain rent, management services, other operating expenses and invoices for payroll of academy staff. The board is planning on entering into a multi-year financing arrangement to spread these costs over the next five years.

Budgeting

Unlike other public school located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy.

Capital Assets and Debt Administration

Capital Assets

At the end of 2006, the Academy had $51,395 net of accumulated depreciation invested in equipment. A summary of the Academy's capital assets at June 30, 2006:

Computer Technology	$54,100
Less: Accumulated Depreciation	(2,705)
Net Capital Assets:	$51,395

At the June 30, 2006, the Academy had $54,100 of capital lease obligations for technology outstanding. Of that amount $19,857 is due within one year. For further information regarding the Academy's debt, refer to Note 12 to the basic financial statements.

Economic Factors

Management is not currently aware of any facts, decision or condition that have occurred that are expected to have a significant effect on the financial position or results of operation.

Operations

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in Kindergarten. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact Michael Trooper, Controller of the Academy, 3333 Chippewa Street, Columbus, Ohio 43204.

ARTS AND SCIENCES PREPARATORY ACADEMY
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets:	
Current assets:	
Cash and Cash Equivalents	$3,603
Intergovernmental Receivable	8,134
Prepaid Expense	5,800
Total current assets	17,537
Non-current assets:	
Capital Assets, net of Accumulated Depreciation	51,395
Total non-current assets	51,395
Total assets	68,932
Liabilities:	
Current liabilities:	
Accounts Payable, Trade	3,243
Accounts Payable, Related Party	64,576
Accrued Interest	1,837
Benefits Payable	519
Current Portion of Long-Term Debt	19,857
Total current liabilities	90,032
Non-current liabilities:	
Non-current Portion of Long-term Debt	34,243
Total non-current liabilities	34,243
Total liabilities	124,275
Net Assets	
Invested in Capital Assets, Net of Related Debt	(2,705)
Restricted for Other Purposes	3,000
Unrestricted	(55,638)
Total net assets (Deficit)	(55,343)

See Accompanying Notes to the Basic Financial Statements

ARTS AND SCIENCES PREPARATORY ACADEMY
CUYAHOGA COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD SEPTEMBER 01, 2005 THROUGH JUNE 30, 2006

Operating Revenues:	
Foundation Receipts	$168,953
Total Operating Revenues	168,953
Operating Expenses:	
Building	13,483
Purchased Services	171,740
Depreciation	2,705
General Supplies	24,522
Other Operating Expenses	20,271
Total Operating Expenses	232,721
Operating Loss	(63,768)
Non-operating Revenues (Expenses):	
Federal and State Restricted Grants	10,262
Interest Expense	(1,837)
Total Non-operating Revenues & Expenses	8,425
Change in Net Assets	(55,343)
Net Assets Beginning of Year	-
Net Assets (Deficit) End of Year	$(55,343)

See Accompanying Notes to the Basic Financial Statements

ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY

STATEMENT OF CASH FLOWS
FOR THE PERIOD SEPTEMBER 01, 2005 THROUGH JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 165,946
Cash Payments to Building	(13,483)
Cash Payments for Purchased Services	(107,365)
Cash Payments for General Supplies	(24,522)
Cash Payments for Other Operating Expenses	(20,271)
Net Cash Provided by Operating Activities	305
Cash Flows from Noncapital Financing Activities:	
Federal and State Restricted Grants Received	5,135
Interest Expense	(1,837)
Net Cash Provided by Noncapital Financing Activities	3,298
Net Increase in Cash and Cash Equivalents	3,603
Cash and Cash Equivalents at Beginning of Year	0
Cash and Cash Equivalents at End of Year	$ 3,603
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	$ (63,768)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	2,705
(Increase) in Intergovernmenatal Receivable	(3,007)
(Increase) in Prepaid Items	(5,800)
Increase in Accounts Payable	67,819
Increase in Accrued Wages Payable	1,837
Increase in Benefits Payable	519
Total Adjustments	64,073
Net Cash Provided by Operating Activities	$ 305

Noncash Capital and Related Financing Activities

Capital lease obligation of $ 54,100 was incurred when the Academy entered into a lease for computers.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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Note 1 - Description of the School

The Arts and Sciences Preparatory Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in kindergarten. Grade 1 is being added in the 2006-2007 academic year. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operation. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 18, 2005 and ending June 30, 2010. 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.

Ohio Revised Code Section 3314.02(E) states in part that the Academy operate under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operates or manages an academy for the Governing Board. The Board is responsible for carry out the provisions of the contract that include, but are not limited to, state-mandated provision regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. (See Note 15).

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. 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 entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

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. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2006.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2006, 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 year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2006 consisted of computers and other equipment. All capital assets are capitalized at 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 one thousand five hundred dollars. The Academy does not have 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 capitalized.

All capital assets leases, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

Description	Useful Lives
Furniture, Fixtures, and Equipment	5-20 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The statement of net assets reports $3,000 in restricted net assets related to certain unspent federal grant receipts and ($2,705) invested in capital assets net of related debt.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

K. Economic Dependency

The Academy receives approximately 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

Note 3 – Changes in Accounting Principles

A. Change in Accounting Principles

For the period September 01, 2005 through June 30, 2006, the Academy implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. There was no effect on the financial statements.

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2006, the bank balance of Academy's deposits was $3,683. The bank balance was covered by federal depository insurance which covers deposits up to $100,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2006, the Academy had intergovernmental receivables, in the amount of $8,134. The receivables are expected to be collected within one year.

Grant	Amount
Food Service	$5,127
State Foundation Funding Adjustment	3,007
Total Intergovernmental Receivable	$8,134

Note 6 - Capital Assets

Capital asset activity for the period September 01, 2005 through June 30, 2006, was as follows:

	Balance Sept 1, 2005	Additions	Deletions	Balance June 30, 2006
Computer Technology	$0	$54,100	$0	$54,100
Less: Accumulated Depreciation	0	(2,705)	0	(2,705)
Capital Assets, Net	$0	$51,395	$0	$51,395

Note 7 - Risk Management

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. During fiscal year 2006, the Academy contracted with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

General Liability:	
Each Occurrence	$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000

Settled claims have not exceeded this commercial coverage in any prior years and there have been no significant reductions in insurance coverage during the year.

Note 8 – Purchased Services

For the period September 1, 2005 through June 30, 2006, purchased service expenses were for the following services:

Service	Amount
Personnel Services	$118,505
Building/Custodial	4,823
Consulting	9,865
Legal Fees	1,738
Management Fee	20,743
Other Services	6,213
Printing	1,652
Special Education/Nursing	4,457
Sponsor Fee	1,788
Transportation	1,956
Total:	$171,740

Note 9 – Defined Benefit Pension Plans

The Academy has contracted with Mosaica Education, Inc. to provide employee services. However, these contracted services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent 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 percent 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 contributions for pension obligations to SERS for the fiscal year ended June 30, 2006 was $7,723; 100 percent of this amount has been contributed for fiscal year 2006.

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2006 was $5,077, 100 percent has been contributed for fiscal year 2006. No employees contributed to the DCP and CP for the fiscal year ended June 30, 2006.

Note 10 – Postemployment Benefits

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

Note 10 – Postemployment Benefits (Continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $7,160 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. 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 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled $1,887.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

Note 11 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

Note 11 – Contingencies (Continued)

B. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et. Al., Case #3:04CV197*** was filed in the US 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 administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy is owed $3,007 by the Ohio Department of Education. This is reported as an intergovernmental receivable on the June 30, 2006 Statement of Net Assets.

Note 12 – Long-Term Obligations

Changes in the Academy's long-term obligations during the period September 01, 2005 through June 30, 2006 were as follows:

	Balance 9/1/2005	Additions	Deletions	Balance 6/30/06	Amount Due Within One Year
Capital Leases Payable	0	$54,100	$0	$54,100	$19,857

Note 13 – Capital Lease-Lessee Disclosure

The Academy entered into one lease agreement in fiscal year 2006 with Relational LLC for technology equipment (computers). The Academy's lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases". The technology equipment has been capitalized in the amount of $54,100, the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows:

Note 13 – Capital Lease-Lessee Disclosure (Continued)

Year Ending June 30	Technology
2007	$ 27,696
2008	22,157
2009	16,617
Total future minimum lease payments	66,470
Less: amount representing interest	(12,370)
Present value of future minimum lease payments	$ 54,100

A liability for capital lease obligations in the amount of $54,100 is reported on the Statement of Net Assets. Of this amount, $19,857 is a current liability due within one year and $34,243 is a long-term liability due in more than one year.

Note 14 –Tax Exempt Status.

The Academy has not obtained its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy has made no provision for any potential tax liability resulting from not obtaining the Section 501(c)(3) tax-exempt status.

Note 15 – Related Party Transactions/Management Company

The Academy shares a common Governing Board with Cleveland Arts and Social Sciences Academy. During 2006, Cleveland Arts and Social Sciences Academy utilized vacant classrooms of the Academy and paid a proportional share of the facility rent and facility cost passthroughs in the amounts of $107,376 to the Academy's landlord, CAC Building Properties. Cleveland Arts and Social Sciences Academy also shared administrative costs with the Academy. Costs were allocated based on the number of students enrolled at each Academy. Total shared costs for 2006 were $35,219. At, June 30, 2006, the Academy owed Cleveland Arts and Social Sciences Academy $38,219.

The Academy contracts with Mosaica Education, Inc. for a variety of services including management of personnel and human resources, board relations, financial management, marketing, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement and budget preparation and accounts payable and payroll preparation.

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for fiscal year 2006 was $20,743.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc. employees working at the Academy, and other costs related to providing educational and administrative services.

Note 15 – Related Party Transactions/Management Company (Continued)

The Academy had payables to the Cleveland Arts and Social Sciences Academy, a charter school managed by Mosaica Education with which it shares the same facility, in the amount of $38,219.

At June 30, 2006, the Academy had payables to Mosaica Education in the amount of $26,357.

The following is a schedule of all expenses billed by Mosaica Education, Inc. as of June 30, 2006:

	Amount
Payroll	$25,150
Management Fee	1,056
Interst/Finance Charges	151
Total June 30, 2006	$26,357

Note 16 – Sponsor

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005. As part of this contract, the Sponsor is entitled to a maximum of 1% of the total state funds. Total amount due and paid for fiscal year 2006 was $1,788.

Note 17 – Management's Plan

For fiscal year 2006, the Academy had an operating loss ($63,768) and net asset deficit ($55,343). The Academy will have an operating loss again in FY 2007 with students enrolled in Kindergarten only. Management plans to relocate the school in FY 2008 and operate with grades K - 7. At this time, the significantly anticipated increase in enrollment should allow the school to reduce its operating losses and have operating gains.

Management plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may significantly increase enrollment, eliminate the initial two years of deficits and may lead to no operating losses in future years. Management has been very successful in increasing enrollment at its other community schools in Ohio. As of April 30, 2008 the Academy had a bank balance of $17,287.

Mary Taylor, CPA
Auditor of State

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

Arts and Sciences Preparatory Academy
Cuyahoga County
1140 Euclid Avenue
Cleveland, Ohio 44115

To the Board of Directors:

We have audited the basic financial statements of the Arts and Sciences Preparatory Academy, Cuyahoga County, Ohio (the Academy) as of and for the period ended June 30, 2006, and have issued our report thereon dated March 15, 2008, wherein we noted the Academy had a deficit net asset balance and an operating loss as of June 30, 2006 and experienced certain financial difficulties during the year. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-002 and 2006-003.

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A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy’s internal control will not prevent or detect a material financial statement misstatement.

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

We also noted a certain internal control matter that we reported to the Academy’s management in a separate letter dated March 15, 2008.

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 opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2006-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy’s management in a separate letter dated March 15, 2008.

The Academy’s responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy’s responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, Board of Directors, and Saint Aloysius Orphanage. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 15, 2008

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

FINDING NUMBER 2006-001

Governing Authority - Noncompliance

Ohio Rev. Code § 3314.02(E) states in part that each community school established under this chapter shall be under the direction of a governing authority which shall consist of a board of not less five individuals who are not owners or employees, or immediate relatives of owners or employees, of any for-profit firm that operates or manages a school for the governing authority and that no personal shall serve on the governing authorities of more than two start-up community schools at the same time.

As of June 30, 2006 the academy only had four individuals participating on the Board of Directors. Not only is the current number of board members insufficient to be compliant with the above Ohio Revised Code requirement, but it is also a violation of the Academy's agreement with its sponsor, which also stipulates that the Academy must maintain a five-member governing board.

We recommend the Academy takes steps to secure not less than five governing board members that comply with all aspects of Ohio Revised Code § 3314.02(E)(1) to act as the governing authority for the Academy. By establishing the required five-member governing board, the Academy can gain assurance that it is in compliance with the Ohio Revised Code and sponsorship agreement requirements.

Officials' Response

The Governing Board has taken steps to recruit additional members to ensure the Academy is in compliance with the Ohio Revised Code and its Sponsor Agreements. The Governing Board currently has seven trustees.

FINDING NUMBER 2006-002

Material Weakness/Significant Deficiency – GAAP Conversion

Sound financial reporting is the responsibility of the Treasurer's Office and the Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following errors were noted involving the Academy's financial statement presentation:

- The Current Portion of Long-Term Debt was understated ($19,857).
- The amount reported as Invested in Capital Assets, Net of Related Debt was overstated ($54,100).
- The amount reported as Restricted Net Assets was understated ($3,000).
- Accrued Interest Expense was incorrectly recorded ($1,837).
- Accrued Wages were overstated ($5,280)
- Intergovernmental Receivable was understated ($3,007)
- Prepaid Expense was overstated ($3,713)

Not presenting financial information accurately resulted in the financial statements requiring the above audit adjustments and reclassification entries, including additional time and effort to identify variances and discrepancies.

We recommend the Academy's Treasurer take steps to ensure the accurate presentation of the financial statements. Financial transactions should be posted in accordance with procedures established by generally accepted account principles (GAAP). By exercising accuracy in recording financial activity, the Academy can reduce posting errors and increase the reliability of the financial data throughout the year and at year end.

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

FINDING NUMBER 2006-002

Material Weakness/Significant Deficiency – GAAP Conversion

The Academy's financial statements have been adjusted to accurately reflect the proper line item adjustments and reclassifications.

The Treasurer should review the adjustments and reclassifications identified above to ensure that similar errors are not reported on the financial statements in subsequent years. In addition, the Academy should adopt policies and procedures, including a final review of the financial statements and note disclosures by the Treasurer to identify and correct errors and omissions.

Officials' Response

Management had reported total long term debt together on the statement of net assets under non-current liabilities. The first auditor adjustment separated those liabilities out. The second adjustment offset the capital assets with the outstanding debt still owed on those assets. The third adjustment identified a source of funds against which no costs had been allocated. Those costs were recognized in a subsequent fiscal period. The fourth adjustment reclassified interest out of accounts payable to a separate line on the balance sheet. The interest was initially reported in accounts payable as an invoice had been received and posted to the payables module for these costs. The fifth adjustment was to reclassify the liability from accrued wages to related party accounts payable. The school's obligation didn't change, just the way the Auditors wanted to see the statement of net assets presentation. The intergovernmental receivable was an adjustment that the Ohio Department of Education (ODE) made in November 2006 that management had planned to pick up as revenue in 2006-07. Auditors wanted to see that adjustment reflected in the 2005-06 financials as it related to final ADM enrollment as determined by ODE. The net impact of these adjustments on ending net assets was $706. For 2006-07 year end close out and reporting, management was able to incorporate the reporting preferences identified in 2005-06 audits significantly reducing the number of adjustments identified by the auditors as necessary (from 9 down to 3) to reflect presentation formatting that would be used going forward.

FINDING NUMBER 2006-003

Board Monitoring—Significant Deficiency and Material Weakness

Mosaica Education, Inc., the Academy's management company, prepares monthly bank reconciliations and year-to-date and month-to-date budget versus actual financial reports that are presented to the Board of Directors. However, the Academy reports on a full accrual basis of accounting throughout the year and the revenue and expenditures reported on the budget versus actual reports include receivable and payable amounts outstanding. A Statement of Net Assets is not presented to the Board of Directors. Therefore, the Board of Directors can not monitor the Academy's assets, liabilities, and net assets throughout the year.

In addition, the management agreement entered into with Mosaica Education, Inc. states that the following services would be provided: management of personnel and human resources, board relations, financial management, marketing, the program of instruction, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Currently the Board does not have procedures in place to monitor the services being provided by Mosaica Education, Inc.

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

FINDING NUMBER 2006-003 (Continued)

Board Monitoring—Significant Deficiency and Material Weakness (Continued)

Monitoring comprises of regular management activities established to oversee whether management's financial objectives are being achieved. Data from financial reports provided by Mosaica Education, Inc may indirectly provide assurance as to the reliability of financial reporting information if it conforms to the users' expectation. Lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of the Academy's funds.

We recommend that the following items be reviewed and approved by the Board of Directors at the monthly meetings.

1. A Statement of Net Assets that reports the assets, liabilities, and net assets as of the last day of each month.
2. All invoices from Mosaica Education, Inc. and the supporting documentation of the expenses incurred by Mosaica Education, Inc. on behalf of the Academy. Supporting documentation should include payroll reports, the calculation of the management fee charged, rental agreements, and invoices of any other miscellaneous expenses billed to the Academy.

These items should be reviewed by the Board of Directors for any unusual or unexpected financial activity and for discrepancies between the Academy's Management Agreement and the actual services provided and billed by Mosaica Education, Inc. Appropriate follow-up should be made regarding any unusual balances or transactions.

Officials' Response

Although management believes that sufficient management reporting and Sponsor oversight and monitoring is occurring to assure that the Board is kept up to date, the Academy's management and administration is open to expanding the amount of data that is provided to the Board each month to better document that the Board is kept aware of what is going on at the Academy. As a part of the regular Board meeting agenda, the site administration provides a operations report known as a "CAO Report" and management presents a financial package and operations report known as an "MEI Report" as a way for Board to monitor activities and receive updates on issues of interest and concern. All contracts that are non-cancelable in nature are executed directly by the Board. In 2007-08, Management began including a statement of net assets along with the budget to actual detail financial statements and bank reconciliations that are distributed to the Board each month. Management is also now including copies of all Management Company invoices to all members of the Board each month. In the past, management provided a list of checks issued as part of the bank reconciliation support and provided explanations and further support to the Board upon request.

In addition to regular management and administrative reporting, regular reporting from the Academy's Sponsor in regards to monthly site visits and compliance monitoring help the Board monitor operational compliance with state and federal guidelines.

ART AND SCIENCES PREPARATORY ACADEMY

CUYAHOGA 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
JUNE 12, 2008