



**ARTS AND SCIENCES PREPARATORY ACADEMY
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



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
2711 Church Avenue
Cleveland, Ohio 44113

To the Board of Directors:

We have audited the accompanying financial statements of the Arts and Sciences Preparatory Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arts and Sciences Preparatory Academy, Cuyahoga County, Ohio, as of and for the year ended June 30, 2009, 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.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 18 to the financial statements, the Academy's deficit net assets (\$1,013,581) and operating loss (\$600,698) raise substantial doubt about its ability to continue as a going concern. Note 18 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2010, 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.

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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

February 12, 2010

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED*

The discussion and analysis of the Arts and Science Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. 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 fourth year of operations during fiscal year 2009 serving Kindergarten through eighth grade. Enrollment varied during the year but averaged 150 students.

Key highlights for fiscal year 2009 are as follows:

- Net assets decreased \$367,202.
- Operating expenses accounted for \$1,759,236 of the total expenses of \$1,849,450.
- Operating revenues accounted for \$1,158,538 of the total revenues of \$1,482,248.
- Academy had an operating loss of \$600,698 and \$323,710 of the operating loss was alleviated by non-operating federal grants.
- Total assets increased \$4,378, or 2.3 percent, primarily due to \$45,815 in capital asset acquisitions.
- Total liabilities increased \$371,580, or 44.5 percent, primarily due to a \$422,514 increase in payables.

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 basic financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources 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 in 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 tables represent a summary of the Academy's condensed financial information for 2009 derived from the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets for 2009 compared to 2008:

Table 1
Net Assets

	2009	2008	Change
<u>Assets:</u>			
Current Assets	\$129,248	\$153,541	(\$24,293)
Capital Assets	63,781	35,110	28,671
Total Assets	<u>193,029</u>	<u>188,651</u>	<u>4,378</u>
<u>Liabilities:</u>			
Current Liabilities	1,206,610	835,030	371,580
Long-Term Liabilities	0	0	0
	<u>1,206,610</u>	<u>835,030</u>	<u>371,580</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	63,781	14,044	49,737
Restricted for Other Purposes	129	219	(90)
Unrestricted	(1,077,491)	(660,642)	(416,849)
Total Net Assets	<u>(\$1,013,581)</u>	<u>(\$646,379)</u>	<u>(\$367,202)</u>

Total net assets decreased \$367,202. The cause of the decrease was the Board's desire to continue to offer programming that would be attractive to the families of the area and to offer services and student staff ratios necessary to accelerate learning of students faster than the traditional single grade level gains. The goal of this investment is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. The Academy made significant progress towards this goal. Enrollment at the fiscal year ends 2009 and 2008 were 157 and 119, respectively. Enrollment in November 2009 has grown to 219. The student capacity at its current facility is 400. The Academy is projecting a deficit for fiscal year 2010. However, the projected 2010 deficit is smaller than in prior years.

Based on the analysis that was done at the time the decision was made to open the school, 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 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. The Academy is experiencing the growth anticipated and we believe is on track to begin recovering from the investment that was made in the first four years of operations. Resources for the necessary programs have been made available by delaying payment on invoices from the Academy's management company for management services, other operating expenses and employee payroll.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2009 as compared to 2008.

Table 2
Change in Net Assets

	2009	2008	Change
<u>Operating Revenues:</u>			
Foundation	\$1,153,976	\$843,698	\$310,278
Charges for Services and Miscellaneous	4,562	7,228	(2,666)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	323,710	309,157	14,553
 Total Revenues	 <u>\$1,482,248</u>	 <u>\$1,160,083</u>	 <u>\$322,165</u>
<u>Operating Expenses:</u>			
Building	170,500	110,576	59,924
Purchased Services	1,450,707	1,250,561	200,146
Depreciation	17,144	13,051	4,093
General Supplies	105,168	184,682	(79,514)
Other Operating Expense	15,717	15,873	(156)
<u>Non-Operating Expenses:</u>			
Interest	90,214	42,950	47,264
 Total Expenses	 <u>\$1,849,450</u>	 <u>\$1,617,693</u>	 <u>\$231,757</u>
 Total Increase (Decrease) in Net Assets	 <u><u>(\$367,202)</u></u>	 <u><u>(\$457,610)</u></u>	 <u><u>\$90,408</u></u>

The fiscal year 2009 increase in revenues and expenses is primarily due to an increase in enrollment. The enrollment in fiscal year 2009 averaged 150 students compared to 114 in fiscal 2008. In addition, the Academy took advantage of an opportunity to assume additional space in its facility to accommodate future enrollment causing an increase in building rent expense.

Budgeting

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions 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.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2009, the Academy had \$63,781 invested in capital assets (net of accumulated depreciation) for computer and leasehold improvements, an increase of \$28,671 or 81.7 percent. The following table shows fiscal year 2009 compared to 2008:

Capital Assets at June 30 (Net of Depreciation)

<u>2009</u>	<u>2008</u>	<u>Change</u>
\$63,781	\$35,110	\$28,671

The increase reflects the acquisition of new capital assets less depreciation expense for the year. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2009, the Academy had no capital leases outstanding. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2009.

Outstanding Debt, at Year End

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Capital Leases Payable	\$0	\$21,066	(\$21,066)

The decrease reflects the principal retirement during fiscal year 2009. No new capital lease obligations were entered into during the year. For further information regarding the Academy's debt, refer to Note 13 to the basic financial statements.

Economic Factors

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

Operations

Arts and Science Preparatory Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. During 2009, the Academy offered education for Ohio children in kindergarten through eighth grade. 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.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)*

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 question concerning this report, please contact Robert Lotz, Treasurer for Arts and Science Preparatory Academy, 3333 Chippewa Street, Columbus, Ohio 43204.

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**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2009**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 45,666
Intergovernmental Receivable	74,282
Prepaid Expense	9,300
Total current assets	<u>129,248</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	<u>63,781</u>
Total noncurrent assets	<u>63,781</u>

Total assets	<u>\$ 193,029</u>
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Liabilities:

Current liabilities:

Accounts Payable, Trade	\$ 106,174
Accounts Payable, Related Party	<u>1,100,436</u>
Total current liabilities	<u>1,206,610</u>

Net Assets

Invested in Capital Assets	63,781
Restricted Net Assets	129
Unrestricted Net Assets	<u>(1,077,491)</u>
Total Net Assets	<u>\$ (1,013,581)</u>

See Accompanying Notes to the Basic Financial Statements

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Operating Revenues:	
Community School Foundation	\$ 1,153,976
Charge for Services	4,562
Total Operating Revenues	<u>1,158,538</u>
Operating Expenses:	
Building	170,500
Purchased Services	1,450,707
Depreciation	17,144
General Supplies	105,168
Other Operating Expenses	15,717
Total Operating Expenses	<u>1,759,236</u>
Operating Loss	<u>(600,698)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	323,710
Interest Expense	(90,214)
Net Nonoperating Revenues and Expenses	<u>233,496</u>
Change in Net Assets	(367,202)
Net Assets Beginning of Year	(646,379)
Net Assets End of Year	<u><u>\$ (1,013,581)</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 1,153,976
Charge for Services	4,562
Cash Payments to Suppliers for Goods and Services	<u>(1,357,329)</u>
Net Cash Used for Operating Activities	<u>(198,791)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short-term Financing Payments	(89,220)
Federal and State Grant Receipts	<u>385,580</u>
Net Cash Provided by Noncapital Financing Activities	<u>296,360</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Assets	(45,815)
Capital Lease Interest Payments	(1,238)
Capital Lease Principal Retirement	<u>(21,066)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(68,119)</u>

Net Increase in Cash and Cash Equivalents	29,450
Cash and Cash Equivalents - Beginning of the Year	<u>16,216</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 45,666</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	<u>\$ (600,698)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	17,144
Changes in assets and liabilities:	
Increase in Prepaid Expense	(8,127)
Decrease in Accounts Payable, Trade	(41,463)
Increase in Accounts Payable, Related Party	463,977
Decrease in Accrued Liabilities	(19,675)
Decrease in Deferred Revenue	(9,949)
Net Cash Used for Operating Activities	<u><u>\$ (198,791)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

Note 1 - Description of the School

The Arts and Science Preparatory Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-8. 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.

The Academy was approved for operation pursuant to Ohio Revised Code Chapter 3314 under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing 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, owners, or employees of any for-profit firm that operates or manages the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions 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 relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities (See Note 16).

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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 its cash flow needs.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

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 the 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 provisions 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, 2009.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2009, 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 2009 consisted of computers and leasehold improvements. 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; however, all assets purchased through debt financing (i.e. leases) are capitalized. 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.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital assets 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:

<u>Description</u>	<u>Useful Lives</u>
Computers	5 years
Furniture, Fixtures, and Equipment	5-20 years
Leasehold Improvements	Life of Lease

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 the 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. As of June 30, 2009, there were no net assets restricted by enabling legislation.

The statement of net assets reports \$129 in restricted net assets related to certain unspent federal grant receipts and \$63,781 invested in capital assets.

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 99% 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

There were no changes in accounting principals implemented during 2009 that would have a material effect on the financial statements.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

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, 2009, the bank balance of the Academy's deposits was \$53,106 and the carrying value was \$45,666. The bank balance was covered by federal depository insurance, which covers deposits up to \$250,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2009, the Academy had intergovernmental receivables in the amount of \$74,282. The receivables are expected to be collected within one year.

	Amount
Title I Grant	\$41,645
IDEA Grant	14,293
National School Lunch Programs	7,309
School Counselor Grant	6,104
Title II A Grant	4,629
Title II D Grant	252
Title V Grant	50
Total	\$ 74,282

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Computers	\$61,686	\$0	\$0	\$61,686
Leasehold Improvement	0	45,815	0	45,815
Less Accumulated Depreciation	(26,576)	(17,144)	0	(43,720)
Capital Assets, Net	\$35,110	\$28,671	\$0	\$63,781

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 2009, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 7 - Risk Management (Continued)

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	1,000,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Business Personal Property	471,800
Excess/Umbrella Liability:	
Each Occurrence	3,000,000
Aggregate Limit	3,000,000

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

Note 8 – Purchased Services

For the fiscal year ended June 30, 2009, purchased service expenses were as follows:

Service	<u>Amount</u>
Personnel	\$948,613
Building Services	120,477
Professional Services	13,954
Food Services	88,686
Student Services	27,303
Staff and Administrative Services	209,599
Sponsor Fee	18,518
Advertising	23,557
Total	<u><u>\$1,450,707</u></u>

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 Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer 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.

Funding Policy - 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 2009, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$7,109, \$6,509 and \$3,857 respectively; 100 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, 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's lifetime 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

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

Funding Policy - For the fiscal year ended June 30, 2009, 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 2009, 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 years ended June 30, 2009, 2008 and 2007 were \$84,736, \$71,473 and \$11,475, respectively; 84 percent has been contributed for the fiscal year 2009, and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for the fiscal year 2009 were \$0 made by the Academy and \$0 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2009, none of the Academy staff have elected Social Security.

Note 10 – Postemployment Benefits

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2009, 4.18 percent of covered payroll was allocated to health care.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 10 – Postemployment Benefits (Continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008 and 2007 were \$3,244, \$2,970 and \$1,199, respectively; 100 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2009 and 2008 were \$512 and \$469, respectively; 100 percent has been contributed for both fiscal years.

B. State Teachers Retirement System

Plan Description – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$6,518, \$5,498 and \$882, respectively; 84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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, 2009.

B. 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.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 12 – Building Leases

In September 2007, the Academy amended its lease agreement for the use of the main building (17,170 sq. ft.) and grounds to extend the lease term through August 2008 with a base rent of \$8,500 per month. Effective September 1, 2008 the lease was further amended to extend the term through December 31, 2008 with a base rent of \$12,333 per month.

In October 2008, the Academy entered into a new lease agreement for the use of a new facility effective January 1, 2009. The lease term extends through June 30, 2014 with an initial base rent of \$12,605 per month for the use of approximately 15,000 sq. ft. Effective March 1, 2009, the Academy increased its leased space in the building by another 10,000 sq. ft. The base rent was amended to \$20,932 per month for the period March 1, 2009 through June 30, 2009. Effective July 1, 2009 and each July 1 thereafter for the remainder of the lease, the annual base rent escalates by 50 cents per square foot of rented space.

The total rent expense for the fiscal year ended June 30, 2009 was \$170,500. The following table shows the future minimum lease payments required under the lease:

Years Ending June30,	Future Minimum Lease Payments
2010	\$263,749
2011	276,309
2012	288,868
2013	301,428
2014	313,987
Total minimum lease payments	\$1,444,341

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2009 were as follows:

	Balance 6/30/2008	Lease Additions	Principal Payments	Balance 6/30/2009
Capital Leases Payable	\$21,066	\$0	(\$21,066)	\$0

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into a capitalized lease for the use of computer equipment and leasehold improvements. The lease meets the criteria of 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 risk of ownership to the lessee. Principal payments in 2009 were \$21,066.

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 14 – Capital Lease-Lessee Disclosure (Continued)

	Amount
Capital Assets	\$107,501
Less: Accumulated Depreciation	(43,720)
Net June 30, 2009	\$63,781

All capital leases payable have been satisfied during fiscal 2009. There is no debt related to the capital assets at June 30, 2009.

Note 15 –Tax Exempt Status

The Academy has filed for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

Note 16 – Related Party Transactions/Management Company

The Academy shares a common Governing Board with Cleveland Arts and Social Sciences Academy.

The Academy contracts with Mosaica Education, Inc. for variety of services including management of personnel and human resources, board relations, financial management, marketing, technology services, 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, budget preparation, accounts payable, and payroll preparation.

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy's revenue. The management fee for fiscal year 2009 was \$185,280.

Mosaica Education, Inc. pays for certain operating expenses on behalf of the Academy and subsequently invoices the Academy for reimbursement. Such expenses include: payroll, rent and insurance. The amount invoiced for reimbursement in fiscal 2009 was \$1,081,975.

At June 30, 2009, the Academy had payables to Mosaica Education, Inc. in the amount of \$1,100,436.

The following is a schedule of amounts owed to Mosaica Education, Inc at June 30, 2009.

	Amount
Payroll	\$682,110
Management Fee	227,156
Miscellaneous	83,905
Interest/Finance Charges	80,418
Rent	26,847
Total June 30, 2009	\$1,100,436

**ARTS AND SCIENCE PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)**

Note 17 – Sponsor

The Academy was approved for operation under a contract with the St. Aloysius Orphanage Council (the Sponsor) for a period of five academic years commencing July 18, 2005. As part of this contract, the Sponsor is entitled to a percentage of all revenues. Total amount due and paid for fiscal year 2009 was \$18,518.

Note 18 – Management’s Plan

For fiscal year 2009, the Academy had an operating loss of \$600,698, a net loss of \$367,202, and net asset deficit of \$1,013,581. Projected revenues and expenses for fiscal year 2010 indicate that there will be a deficit for the school year. As of January 31, 2010, the Academy had a positive cash fund balance of \$118,110.

The Academy's net loss in fiscal year 2009 of \$367,202 was less than the net loss in fiscal year 2008 of \$457,610 primarily due to increased student enrollment. Final full-time equivalent student enrollment was 157 and 119 students for the fiscal years ending June 30, 2009 and 2008, respectively. Current full-time equivalent student enrollment as of February 2010 is 209 students.

During fiscal 2009, the Academy moved into a larger facility better suited for a school. The larger facility will accommodate a larger student population. The student capacity of the new facility is 400.

Management plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which will help generate future surpluses.

Note 19 – Subsequent Event

On September 1, 2009, the Academy entered into an agreement with Preparing Academic Leaders Academy (a Mosaica School) for the use or storage of certain equipment during the period of Preparing Academic Leaders Academy's suspension of school activities.

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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
2711 Church Avenue
Cleveland, Ohio 44113

To the Board of Directors:

We have audited the financial statements of the Arts and Sciences Preparatory Academy, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2009, and have issued our report thereon dated February 12, 2010, wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. 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.

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.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Academy's management in a separate letter dated February 12, 2010.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 12, 2010

**ARTS AND SCIENCES PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Financial Reporting	No	Partially Corrected; reissued as Management Letter comment

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Mary Taylor, CPA

Auditor of State

Independent Accountant's Report on Applying Agreed-Upon Procedures

Arts and Sciences Preparatory Academy
Cuyahoga County
2711 Church Avenue
Cleveland, Ohio 44113

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by to by the Board, solely to assist the Board in evaluating whether the Arts and Sciences Preparatory Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on January 17, 2008.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and the Academy's sponsor St. Aloysius Orphanage and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 12, 2010



Mary Taylor, CPA
Auditor of State

ARTS 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
APRIL 6, 2010**