LORAIN PREPARATORY ACADEMY
LORAIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009

Mary Taylor, CPA
Auditor of State

LORAIN PREPARATORY ACADEMY
LORAIN COUNTY

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Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lorain Preparatory Academy
Lorain County
3038 Leavitt Road
Lorain, Ohio 44053

To the Board of Directors:

We have audited the accompanying financial statements of the Lorain Preparatory Academy, Lorain 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 these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lorain Preparatory Academy, Lorain County, Ohio, as of June 30, 2009, and the changes in 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 17 to the financial statements, the Academy's deficit net assets ($579,088) and operating loss ($408,063) raise substantial doubt about its ability to continue as a going concern. Note 17 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 22, 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.

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www.auditor.state.oh.us

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

February 22, 2010

MANAGEMENT'S DISUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

The discussion and analysis of the Lorain Preparatory Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance. The first year of the Academy's operations was 2007. The School began accepting students and community school foundation revenue in December of 2006. However, the Academy did receive start-up grants before December 1, 2006.

Financial Highlights

- Net assets decreased $205,943.
- Operating expenses accounted for $1,480,797 of the total expenses of $1,536,639.
- Operating revenues accounted for $1,072,734 of the total funding of $1,330,696.
- The Academy had an operating loss of $408,063 and $257,962 of the operating loss was alleviated by non-operating federal and state grants. The Academy was able to utilize most of the federal grant allocations for fiscal year 2009.

Overview of the Financial Statements

The financial report consists of three parts: the management's 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 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 presents 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 governmental-wide financial statements is included in the discussion and analysis.

The following tables represent a summary 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.

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

Table 1
Net Assets

	2009	2008	Change
Assets:			
Current Assets	$ 94,063	$ 125,014	$ (30,951)
Capital Assets	88,495	87,623	872
Total Assets	182,558	212,637	(30,079)
Liabilities:			
Current Liabilities	717,662	536,388	181,274
Long-term Liabilities	43,984	49,394	(5,410)
Total Liabilities	761,646	585,782	175,864
Net Assets:			
Invested in Capital Assets, Net of Related Debt	27,213	13,691	13,522
Restricted for Other Purposes	-	25	(25)
Unrestricted	(606,301)	(386,861)	(219,440)
Total Net Assets	$ (579,088)	$ (373,145)	$ (205,943)

Results of fiscal year 2009 indicate an ending net asset balance of ($579,088), a decrease of $205,943 over fiscal year 2008. The decrease is the result of lower than anticipated enrollment in the Academy's third year of operations. Enrollment at the end of fiscal 2009 was 151 students as compared to 105 at the end of fiscal 2008. Enrollment as of November 2009 was 163. The enrollment capacity for the facility is 200. We anticipate that the Academy will have a decrease in net assets for fiscal year 2010 but should have an increase in net assets in fiscal year 2011. The goal 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 initial losses are typical for a new Academy which may not typically achieve positive net assets until the third or fourth year of operations due to significant start-up costs.

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

Table 2
Change in Net Assets

	2009	2008	Change
Operating Revenues:			
Community School Foundation	$ 1,070,350	$ 712,938	$ 357,412
Charge for Services	1,988	2,718	(730)
Miscellaneous	396	4,876	(4,480)
Total Operating Revenues	1,072,734	720,532	352,202
Operating Expenses:			
Building	129,000	184,038	(55,038)
Purchased Services	1,257,161	994,453	262,708
Depreciation	14,551	11,424	3,127
General Supplies	61,758	144,822	(83,064)
Other Operating Expenses	18,327	17,078	1,249
Total Operating Expenses	1,480,797	1,351,815	128,982
Operating Loss	(408,063)	(631,283)	223,220
Nonoperating Revenues and Expenses:			
Federal and State Restricted Grants	257,962	262,803	(4,841)
Interest Expense	(55,842)	(20,733)	(35,109)
Net Nonoperating Revenues and Expenses	202,120	242,070	(39,950)
Change in Net Assets	(205,943)	(389,213)	183,270
Net Assets (Deficit) Beginning of Year	(373,145)	16,068	(389,213)
Net Assets (Deficit) End of Year	$ (579,088)	$ (373,145)	$ (205,943)

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 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 the Academy's staff.

Budget

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.

Capital Assets and Debt Administration

Capital Assets

At the end of FY 2009, the Academy had $88,495 invested in capital assets (net of accumulated depreciation) for computers, furniture and equipment. The following table shows fiscal year 2009 compared to 2008:

Capital Assets at June 30 (Net of Depreciation)

	2009	2008	Change
Furniture & Equipment	$58,408	$62,203	($3,795)
Computer Technology	30,087	25,420	4,667
Net Capital Assets	$88,495	$87,623	$872

The increase primarily represents acquisitions of classroom technology equipment purchased during the school year offset by the annual depreciation charge. There were no asset disposals during 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 $61,282 of capital lease obligations for computer, furniture and equipment outstanding. Of that amount, $17,298 is due within one year. The following outstanding table summarizes the Academy's debt outstanding as of June 30, 2009.

Outstanding Debt, at Year End

	2009	2008	Change
Capital Lease - Furniture	$47,298	$59,620	($12,322)
Capital Lease - Computers	13,984	14,312	(328)
Total	$61,282	$73,932	($12,650)

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

Lorain Preparatory Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in third 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.

Requests for Information

This financial report is designed to provide our 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 Robert Lotz, Treasurer for Lorain Preparatory Academy, 3333 Chippewa Drive, Columbus, Ohio 43204.

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LORAIN PREPARATORY ACADEMY
LORAIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2009

Assets:	
Current assets:	
Cash and Cash Equivalents	$ 39,191
Intergovernmental Receivable	54,872
Total current assets	94,063
Noncurrent assets:	
Capital Assets, net of Accumulated Depreciation	88,495
Total assets	182,558
Liabilities:	
Current liabilities:	
Accounts Payable, Trade	75,568
Accounts Payable, Related Party	611,262
Accrued Liabilities	13,377
Accrued Interest	157
Capital Leases Payable, Current Portion	17,298
Total current liabilities	717,662
Noncurrent liabilities:	
Capital Leases Payable, Non Current Portion	43,984
Total liabilities	761,646
Net Assets	
Invested in Capital Assets, Net of Related Debt	27,213
Unrestricted Net Assets	(606,301)
Total Net Assets	$ (579,088)

See Accompanying Notes to the Basic Financial Statements

LORAIN PREPARATORY ACADEMY
LORAIN COUNTY

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

Operating Revenues:	
Community School Foundation	$ 1,070,350
Charge for Services	1,988
Miscellaneous	396
Total Operating Revenues	1,072,734
Operating Expenses:	
Building	129,000
Purchased Services	1,257,161
Depreciation	14,551
General Supplies	61,758
Other Operating Expenses	18,327
Total Operating Expenses	1,480,797
Operating Loss	(408,063)
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	257,962
Interest Expense	(55,842)
Net Nonoperating Revenues and Expenses	202,120
Change in Net Assets	(205,943)
Net Assets (Deficit) Beginning of Year	(373,145)
Net Assets (Deficit) End of Year	$ (579,088)

See Accompanying Notes to the Basic Financial Statements

LORAIN PREPARATORY ACADEMY
LORAIN COUNTY

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Foundation Receipts	$ 1,065,693
Charge for Services	1,988
Other Operating Receipts	396
Cash Payments to Suppliers for Goods and Services	(1,256,515)
Net Cash Used by Operating Activities	(188,438)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Short-term Financing Payments	(48,351)
Federal and State Grant Receipts	300,690
Net Cash Provided by Noncapital Financing Activities	252,339
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Lease Interest Retirement	(7,477)
Capital Lease Principal Payments	(28,071)
Net Cash Used by Capital and Related Financing Activities	(35,548)
Net Increase in Cash and Cash Equivalents	28,353
Cash and Cash Equivalents - Beginning of the Year	10,838
Cash and Cash Equivalents - Ending of the Year	$ 39,191

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Operating Loss	$ (408,063)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	14,551
Changes in Assets and Liabilities:	
Decrease in Prepaid Expense	16,575
Increase in Accounts Payable, Trade	143
Increase in Accounts Payable, Related Party	179,636
Increase in Accrued Liabilities	13,377
Decrease in Deferred Revenue	(4,657)
Net Cash Used by Operating Activities	$ (188,438)

Noncash capital and related financing activities
The Academy entered into a capital lease agreement for $15,423 for the purchase of computer technology

See Accompanying Notes to the Basic Financial Statements

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Note 1 – Description of the School

The Lorain Preparatory Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades 3-8. 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 under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 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.

The Academy operates under the direction of a Governing Board that consists of five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage 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 qualifications of teachers.

The Academy contracts with Mosaica Education, Inc., for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, 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 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 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, 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 capital leases for computers, furniture 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Description	Useful Lives
Furniture and Equipment	5-20 years
Computer Technology	5 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. As of June 30, 2009, there were no net assets restricted for enabling legislation.

The statement of net assets reports $27,213 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 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.

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 Academy's deposits was $48,064. The bank balance was covered by federal depository insurance. 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 $54,872. The receivables are expected to be collected within one year.

Grant	Amount
Title I	$32,244
IDEA	14,666
National School Lunch	5,936
Title II A	1,066
Title IV	870
Title V	90
Total Intergovernmental Receivables	$54,872

Note 6 – Capital Assets

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

	Balance July 1, 2008	Additions (Deletions)	Depreciation Expense	Balance June 30, 2009
Depreciable Capital Assets				
Furniture & Equipment	$64,897	0	0	$64,897
Computer Technology	44,780	15,423	0	$60,203
Less Accumulated Depreciation				
Furniture & Equipment	(2,694)	0	(3,795)	($6,489)
Computer Technology	(19,360)	0	(10,756)	($30,116)
Capital Assets, Net	$87,623	$15,423	($14,551)	$88,495

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 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	1,000,000
Personal and Advertising Injury	1,000,000
Business Personal Property	865,200
Building	840,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella	
Each Occurrence	6,000,000
Aggregate Limit	6,000,000

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 year ended June 30, 2009, purchased service expenses were for the following services:

Service		Amount
Personnel Services		$760,073
Building Services		116,523
Food Service		79,429
Student Services		48,499
Staff and Administrative Services		189,785
Professional Services		15,877
Sponsor Fee		32,041
Advertising		14,934
	Total:	$1,257,161

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

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, 9.09 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 $4,244, $3,864 and $2,653 respectively; 51 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.

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (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 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 $70,895, $46,647 and $21,274, respectively; 85 percent has been contributed for the fiscal year 2009, and 100 percent for fiscal years 2008 and 2007. The Academy did not make contributions to the DC and Combined Plans for fiscal year 2009.

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 staff at the Academy have elected Social Security.

Note 10 – Postemployment Benefits

A. School Employees Retirement System

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, 4.16 percent of covered payroll was allocated to health care.

Note 10 – Postemployment Benefits (Continued)

A. School Employees Retirement System (Continued)

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.

The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008 and 2007 were $1,937, $1,763 and $825, respectively; 51 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 0.75 percent of covered payroll. The Academy's contribution for Medicare Part B for the fiscal years ended June 30, 2009 and 2008 were $306 and $278 respectively; 51 percent was been contributed for fiscal year 2009 and 100 percent was contributed for 2008**.**

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 $5,453, $3,588 and $1,635 respectively; 85 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.

Note 11 – Contingencies (Continued)

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. However, in the opinion of management, any such adjustment would not have a material adverse effect on the overall financial position of the Academy at June 30, 2009.

Note 12 – Building Leases

In September 2007, the Academy entered into an agreement with Lorain-Leavitt Properties, LLC, a wholly owned subsidiary of Mosaica Education, Inc. for the use of the site as a school facility. Mosaica Education, Inc. is a related party, as disclosed in the Footnote 15. The lease agreement terminated on June 30, 2008 and had a base rent of $1,500 per month. On July 1, 2008, this lease was extended on a month-to-month basis with the same terms. In addition, in July 2008, the Academy entered into a lease agreement with Mosaica Education, Inc. for the use of thirteen modular buildings. The lease has a base rental rate of $9,250 per month and terminates on June 30, 2015. Commencing on January 1, 2011 and continuing for the remainder of the lease, monthly rent on the modular units shall be $10,175. The lease assigns the Academy the right to purchase the modulars at the end of the lease at fair market value. Base rent expense for use of the site for fiscal year ended 2009 was $18,000. Base rent expense for the use of the modular buildings for fiscal year 2009 was $111,000.

Note 13 – Capital Lease-Lessee Disclosure

The Academy entered into lease agreements in: fiscal year 2006 with Relational LLC for technology equipment (computers), fiscal year 2008 with Irwin Commercial Leasing for furniture and equipment and fiscal year 2009 with Irwin Commercial Leasing for technology equipment. 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", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The leases have been capitalized in the amounts of $44,780, $64,897 and $15,423 respectively, 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:

Year Ending June 30	
2010	21,289
2011	22,017
2012	18,111
2013	8,060
Total future minimum lease payments	69,477
Less: amount representing interest	(8,195)
Present value of future minimum lease payments	$ 61,282

Note 13 – Capital Lease-Lessee Disclosure (Continued)

A liability for capital lease obligations in the amount of $61,282 is reported on the June 30, 2009 Statement of Net Assets. Of this amount, $17,298 is a current liability due within one year and $43,984 is a long term liability due in more than one year.

Note 14 –Tax Exempt Status

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

Note 15 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for a 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 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 2009 was $166,337. In addition, upon termination of the agreement due to nonperformance by either party, or in the event of nonrenewal upon expiration of the agreement, the Academy must pay Mosaica Education, Inc. $100,000 per year for three consecutive years.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual cost 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 administration services. The total expenses paid to Mosaica Education Inc. during fiscal year 2009 were $758,425.

At June 30, 2009, the Academy had payables to Mosaica Education, Inc. in the amount of $611,262. The following is a schedule of payables owed to Mosaica Education, Inc.

	Amount
Payroll	$372,873
Management Fee	111,021
Rent	73,500
Finance Charges	31,728
Miscellaneous	22,140
Total June 30, 2009	$611,262

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 1, 2005. As part of this contract, the Sponsor is entitled to a percentage of the total state funds. Total amount due and paid for fiscal year 2009 was $32,041.

Note 17 – Management's Plan

For fiscal year 2009, the Academy had an operating loss of $408,063, a decrease in net assets of $205,943, and a cumulative net asset deficit of $579,088. The Academy's management is projecting an operating loss and another decrease in net assets for the year ending June 30, 2010 due to lower than expected enrollment. As of December 31, 2009 the Academy's change in net assets was $20,598 and the net asset deficit was ($558,490). As of February 22, 2010 the Academy had a bank balance $30,144, with no significant outstanding items on the cash reconciliation.

Over time, management believes that the anticipated increase in enrollment should allow the school to reduce its operating losses and net asset deficit. The current student capacity is 200 and the current enrollment as of December 2009 is 164. As of February 22, 2010, the Academy was being funded for 160 FTE's. Management plans to continue efforts to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to operating surpluses in future years.

Note 18 – Subsequent Events

An amended and restated Management Agreement was signed and approved by the Academy's Board of Directors effective July 1, 2009. The amended agreement established a schedule of payment by the Academy to Mosaica Education, Inc for the $300,000 start-up fee originally agreed upon in the February 12, 2004 Management Agreement. The amended agreement states that the start-up fee is a promissory note to be repaid with 9.00% interest starting July 1, 2009 and amortized through June 15, 2013 with regular equal monthly payments to be made on the fifteenth day of each month, starting with the first month after the start date. Upon any termination or expiration of this agreement by either party for any reason, the entire unpaid principle balance together with all accrued interest of the start-up note shall become due and payable by the Academy to Mosaica Education, Inc.

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

Lorain Preparatory Academy
Lorain County
3038 Leavitt Rd.
Lorain, Ohio 44053

To the Board of Directors:

We have audited the financial statements of Lorain Preparatory Academy, Lorain County, Ohio, (the Academy) as of and for the year ended June 30, 2009, and have issued our report thereon dated February 22, 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 internal control matters that we reported to the Academy's management in a separate letter dated February 22, 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 the audit committee, management, the Board of Directors, and the St. Aloysius Orphanage. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 22, 2010

Mary Taylor, CPA
Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

Lorain Preparatory Academy
Lorain County
3038 Leavitt Road
Lorain, Ohio 44053

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 the Board, solely to assist the Board in evaluating whether Lorain Preparatory Academy (the School) 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 16, 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;

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(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;

3. We read the policy, noting it did not include the following requirement from Ohio Rev. Code Section 3313.666 (B):

   (1) 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.

Officials' Response: The Academy's Board and its management are researching the relevant ORC Statute and anticipate formalizing an amendment to require semiannual reporting of incidents to the Board of Directors.

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 and St. Aloysius Orphanage and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 22, 2010

Mary Taylor, CPA
Auditor of State

LORAIN PREPARATORY ACADEMY

LORAIN 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 8, 2010

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