

**ARTS AND COLLEGE
PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**



Dave Yost • Auditor of State

Board of Directors
Arts and College Preparatory Academy
4401 Hilton Corporate Drive
Columbus, Ohio 43232

We have reviewed the *Independent Accountants' Report* of the Arts and College Preparatory Academy, Franklin County, prepared by Hemphill & Associates, for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 25, 2011

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**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors of
Arts and College Preparatory Academy
Columbus, Ohio

We have audited the accompanying financial statements of the Arts and College Preparatory Academy (the Academy) as of and for the year ended June 30, 2010 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 obtain reasonable assurance about 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 respective financial position of Arts and College Preparatory Academy as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audits. It should be read in conjunction with this report in assessing the results of our audit.



**INDEPENDENT ACCOUNTANTS' REPORT
(CONTINUED)**

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Columbus, Ohio
February 23, 2010

A large, faint watermark of the Hemphill & Associates logo is centered on the page. It consists of the letters 'H&A' in a large, stylized font, with the full name 'Hemphill & Associates' written in a cursive script to the right.

**ARTS AND COLLEGE PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The management's discussion and analysis of the Arts and College Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ending June 30, 2010. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- In total, the net assets increased \$431,029 from fiscal year 2009.
- The Academy had operating revenues of \$1,704,367 and operating expenses of \$1,822,786 during fiscal year 2010. The Academy also had \$557,207 in non-operating revenues and \$7,759 in non-operating expenses during fiscal year 2010.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about how the Academy finances and meets the cash flow needs of its operations.

Reporting the Academy Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2010?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report. The statement of cash flows can be found on page 9.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-23 of this report.

**ARTS AND COLLEGE PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The table below provides a summary of the Academy's net assets at June 30, 2010 and June 30, 2009.

	Net Assets	
	2010	2009
<u>Assets</u>		
Current assets	\$ 600,438	\$ 614,914
Security deposits	-	16,000
Capital assets, net	1,972,553	75,412
Total assets	2,572,991	706,326
<u>Liabilities</u>		
Current liabilities	178,588	208,178
Long-term liabilities	1,465,226	-
Total liabilities	1,643,814	208,178
<u>Net Assets</u>		
Invested in capital assets	507,327	75,412
Restricted	105,612	8,903
Unrestricted	316,238	413,833
Total net assets	\$ 929,177	\$ 498,148

Assets

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Academy's assets exceeded liabilities by \$929,177, an increase of \$431,029 over fiscal year 2009. Of the total net assets, \$316,238 is unrestricted.

At year-end, capital assets represented 76% of total assets, compared to 10% in fiscal year 2009. Capital assets consisted of land, construction in progress, lease holder improvements and furniture, fixtures and equipment. Capital assets are used to provide services to the students and are not available for future spending. The Academy purchased a building during fiscal year 2010 and began renovations that will be completed in fiscal year 2011. The land and construction in progress related to the purchase at June 30, 2010 amounted to \$1,893,709.

Liabilities

Current liabilities decreased by \$29,590 from fiscal year 2009 to 2010, which is primarily due to the \$48,698 intergovernmental payable reported in fiscal year 2009 as a result of the Ohio Department of Education (ODE) enrollment review. For fiscal year 2010, \$4,375 was due to ODE as a result of the review.

The Academy reported long-term liabilities in the amount of \$1,465,226 for a loan that was issued to finance the purchase and renovation of real property that will be used for the new school building.

**ARTS AND COLLEGE PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The table below shows the changes in net assets for the fiscal year 2010 and fiscal year 2009.

Change in Net Assets		
	2010	2009
<u>Operating revenues:</u>		
State foundation	\$1,513,779	\$1,403,237
Special education weighted funding	157,477	154,978
Charges for services	733	-
Rental income	19,292	1,143
Other revenues	13,086	12,235
Total operating revenue	1,704,367	1,571,593
<u>Operating expenses:</u>		
Salaries and wages	930,187	940,458
Fringe benefits	265,361	343,262
Purchased services	500,188	440,182
Materials and supplies	46,926	92,731
Other	53,506	36,609
Depreciation	26,618	24,233
Total operating expenses	1,822,786	1,877,475
<u>Non-operating revenues (expenses):</u>		
Federal, state and local grants	539,802	365,600
Interest income	4,545	6,744
Loss on disposal of capital assets	-	(1,714)
Contributions and donations	12,860	2,543
Interest expense	(7,759)	-
Total non-operating revenues (expenses)	549,448	373,173
Change in net assets	431,029	67,291
Net assets at the beginning of the year	498,148	430,857
Net assets at the end of the year	\$ 929,177	\$ 498,148

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. The Academy received additional State foundation and special education weighted funding revenues during fiscal year 2010 due to an increase in student enrollment. The Academy received Federal grant monies through the American Recovery and Reinvestment Act (ARRA) which resulted in an increase in Federal and State grant revenue during fiscal year 2010.

**ARTS AND COLLEGE PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Capital Assets

At June 30, 2010, the Academy had \$1,972,553 invested in land, construction in progress, lease holder improvements and furniture, fixtures and equipment. See Note 6 in the notes to the basic financial statements for more detail on capital assets.

Capital Assets at June 30 (Net of Depreciation)		
	Governmental Activities	
	2010	2009
Land	\$ 419,619	\$ -
Construction in progress	1,474,090	-
Furniture, fixtures and equipment	55,932	49,198
Leaseholder improvements	22,912	26,214
Total capital assets	\$ 1,972,553	\$ 75,412

Debt Administration

At June 30, 2010, the Academy entered into a loan agreement to borrow up to \$1,800,000 to finance the purchase and renovation of real property. As of June 30, 2010, \$1,465,226 has been drawn on the loan and is reported a long-term liability on the statement of net assets. See Note 7 to the basic financial statements for detail on the loan.

Current Financial Related Activities

The Academy is sponsored by St. Aloysius. The Academy relies primarily on the State Foundation funds and federal and state operating grants.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for State and Federal funds that are made available to finance its operations.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, 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 questions about this report or need additional financial information contact Ms. Arlene Wilson, Treasurer, 4401 Hilton Corporate Drive, Columbus, Ohio 43232.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2010**

Assets:

Current assets:

Cash and cash equivalents	\$ 529,589
Receivables:	
Intergovernmental	56,723
Prepayments	14,126
Total current assets	600,438

Noncurrent assets:

Land and construction in progress	1,893,709
Depreciable capital assets, net	78,844
Total noncurrent assets	1,972,553
Total assets	2,572,991

Liabilities:

Current liabilities:

Accounts payable	12,307
Accrued wages and benefits	118,196
Pension obligation payable	19,023
Intergovernmental payable	13,667
Unearned revenue	15,395
Total current liabilities	178,588

Non-current liabilities:

Due in more than one year	1,465,226
Total non-current liabilities	1,465,226
Total liabilities	1,643,814

Net Assets:

Invested in capital assets, net of related debt	507,327
Restricted for:	
Restricted for state funded programs	6,550
Restricted for capital projects	86,576
Restricted for other purposes	12,486
Unrestricted	316,238
Total net assets	\$ 929,177

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Operating revenues:	
State foundation	\$1,513,779
Special education weighted funding	157,477
Charges for services	733
Rental income	19,292
Other revenues	13,086
Total operating revenues	<u>1,704,367</u>
Operating expenses:	
Salaries and wages	930,187
Fringe benefits	265,361
Purchased services	500,188
Materials and supplies	46,926
Other operating expenses	53,506
Depreciation	26,618
Total operating expenses	<u>1,822,786</u>
Operating loss	<u>(118,419)</u>
Non-operating revenues (expenses):	
Federal, state, and local grants	539,802
Interest income	4,545
Contributions and donations	12,860
Interest expense	(7,759)
Total nonoperating revenues (expenses)	<u>549,448</u>
Income (loss) before transfers	<u>431,029</u>
Change in net assets	431,029
Net assets at beginning of year	<u>498,148</u>
Net assets at end of year	<u><u>\$ 929,177</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Cash flows from operating activities:	
Cash received from state foundation	\$ 1,469,456
Cash received from special education weighted funding	157,477
Cash received from charges for services	733
Cash received from rental income	19,292
Cash received from other operations	13,086
Cash payments for salaries and wages	(928,325)
Cash payments for fringe benefits	(278,182)
Cash payments for contractual services	(486,295)
Cash payments for materials and supplies	(38,864)
Cash payments for other expenses	(56,619)
Net cash used in operating activities	<u>(128,241)</u>
 Cash flows from noncapital financing activities:	
Cash received from federal, state and local grants	522,729
Cash received from contributions and donations	12,860
Net cash provided by noncapital financing activities	<u>535,589</u>
 Cash flows from capital and related financing activities:	
Loan issuance	1,465,226
Interest expense	(7,759)
Acquisition of capital assets	(1,923,759)
Net cash used in capital and related financing activities	<u>(466,292)</u>
 Cash flows from investing activities:	
Interest received	9,193
Net cash provided by investing activities	<u>9,193</u>
 Net decrease in cash and cash equivalents	 (49,751)
Cash and cash equivalents at beginning of year	579,340
Cash and cash equivalents at end of year	<u><u>\$ 529,589</u></u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (118,419)
Adjustments:	
Depreciation	26,618
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(5,692)
Increase in prepayments	(1,763)
Decrease in security deposit	16,000
Increase in accounts payable	3,950
Increase in accrued wages and benefits	5,847
Decrease in intergovernmental payable	(56,330)
Increase in pension obligation payable	1,548
Net cash used in operating activities	<u><u>\$ (128,241)</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Arts and College Preparatory Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. Management is not aware of any course of action or series of events which could adversely affect the Academy’s tax-exempt status. The Academy is a general population high school. One of the Academy’s missions is to provide students with academic and art knowledge and skills necessary for them to be successful in any post-secondary educational opportunities they choose. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for its operations.

Effective May 1, 2006, the Lucas County Educational Service Center assigned their remaining rights and responsibilities under the sponsorship agreement to St. Aloysius. St. Aloysius (the Sponsor) is operating with a new five-year agreement. 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 five-member Board of Trustees. The Board of Trustees is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy’s one instructional/support facility staffed by 2 non-certified and 26 certified full time teaching personnel, who provide services to 254 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where it has been decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a “flow of economic resources” measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. Net assets are segregated into investments in capital assets and unrestricted components.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transaction, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Community schools must adopt a spending plan under Ohio Revised Code. Section 5705.391, which requires annual appropriations and annual revenues estimates. The contract between the Academy and its sponsor requires the Academy to comply with the financial plan that details an estimated budget for each year of the contract. The Academy is compliant.

E. Cash and Investments

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

During fiscal year 2010, investments were limited to investments in non-negotiable certificates of deposit. Non-participating investment contracts, such as non-negotiable certificates of deposit, are reported at cost. The Academy had no investments outstanding at June 30, 2010.

For presentation on the financial statements, investments of the cash management pool and investments with the original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$500. 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.

All reported capital assets except for land and construction in progress are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Leasehold improvements	15 years
Furniture, Fixtures and Equipment	3 - 5 years

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation 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.

H. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, Federal Education Stabilization Program, State and Federal Food Reimbursement grants, EMIS, Title VI-B, Title VI-B ARRA, Title II-D, Title I, Title I ARRA, Title IV-A, Improving Teacher Quality and Learn & Serve. Revenues received from the State Foundation and Federal Education Stabilization Programs are recognized as operating revenues in the accompanying financial statements. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is 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. Federal, State and local grant revenue for fiscal year 2010 was \$539,802.

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities

The Academy has recognized certain expenses due but unpaid as of June 30, 2010. These expenses are reported as accrued liabilities in the accompanying financial statements.

J. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the statement of net assets. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

K. Estimates

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

L. Economic Dependency

The Academy receives approximately 98% 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 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2010, the Academy has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the Academy.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments.

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the Academy.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS

At June 30, 2010, the carrying amount of all Academy deposits was \$529,589. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$327,446 of the Academy's bank balance of \$577,446 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (the "FDIC").

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 5 - RECEIVABLES

Receivables at June 30, 2010 consisted of intergovernmental receivables arising from grants and entitlements receivable. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivable:	<u>Amount</u>
SERS refund	\$ 5,692
Federal food reimbursement program	22,013
Title VI-B	14,524
Title I	9,375
Title IV-A	1,079
Improving teacher quality	1,447
Learn & serve	<u>2,593</u>
Total intergovernmental receivables	<u>\$ 56,723</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/10</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 419,619	\$ -	\$ 419,619
Construction in progress	-	<u>1,474,090</u>	-	<u>1,474,090</u>
Total capital assets not being depreciated	-	<u>1,893,709</u>	-	<u>1,893,709</u>
Capital assets being depreciated:				
Furniture, fixtures and equipment	119,069	30,050	-	149,119
Leasehold improvements	<u>49,529</u>	-	-	<u>49,529</u>
Total capital assets being depreciated	<u>168,598</u>	<u>30,050</u>	-	<u>198,648</u>
Less: accumulated depreciation				
Furniture, fixtures and equipment	(69,871)	-	(23,316)	(93,187)
Leasehold improvements	<u>(23,315)</u>	-	<u>(3,302)</u>	<u>(26,617)</u>
Total accumulated depreciation	<u>(93,186)</u>	-	<u>(26,618)</u>	<u>(119,804)</u>
Capital assets, net	<u>\$ 75,412</u>	<u>\$ 1,923,759</u>	<u>\$ (26,618)</u>	<u>\$ 1,972,553</u>

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 7 - LONG-TERM OBLIGATIONS

On January 19, 2010, the Board authorized the purchase and renovation of the real property located at 4401 and 44501 Hilton Corporate Drive. On April 9, 2010, the Board authorized the Academy to enter into a loan agreement with Huntington National Bank to borrow an amount up to \$1,800,000 for a five year term commencing when renovations are completed, with an annual interest rate of 6.3% to 7.5% secured by the real property at 4401 and 4501 Hilton Corporate Drive. During the construction period, or until the permanent loan is in place, interest is at the going rate of 7% per annum or less.

As of June 30, 2010, the amount borrowed was \$1,465,226 and has been reported on the statement of net assets as a long-term liability - due in more than one year. The amount due in one year and the debt service schedule will be disclosed once the loan is finalized.

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2010, purchased services expenses were as follows:

Professional and technical services	\$158,088
Property services	249,792
Travel and meetings	3,289
Communications	6,450
Utilities	8,419
Contracted trade	72,130
Transportation	2,020
Total	<u>\$500,188</u>

NOTE 9 - RISK MANAGEMENT

A. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There have been no insurance settlements that exceeded insurance coverage in the last three years. In addition, there have been no significant reductions in insurance coverage for from the prior year.

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 9 - RISK MANAGEMENT (Continued)

For the fiscal year ended 2010, the Academy contracted with Philadelphia Insurance Company and had the following insurance coverage:

Coverage	Limits of Coverage
General liability:	
Each occurrence	\$ 1,000,000
General aggregate	2,000,000
Medical expenses	5,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products - aggregate	2,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	10,000,000
Aggregate	10,000,000
Retention	10,000
Workers compensation and employers liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000
Other:	
Property	1,000,000
Crime	1,000

B. Workers' Compensation

The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical, Dental and Vision Benefits

The Academy has contracted through an independent agent to provide employee medical, dental and vision insurance to its full-time employees who work 20 or more hour per week. The Academy pays 100% of the monthly premiums for all selected coverage (medical, dental and/or vision).

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 10 - OPERATING LEASE

The Academy rented a building under an operating lease for a term of six years commencing August 2004 through July 31, 2010. The Academy purchased a building in fiscal year 2010 and waived the security deposit to end the lease on June 30, 2010.

For the fiscal year ended 2010, the payments made on the lease were \$219,810.

NOTE 11 - FISCAL SERVICES CONTRACT

The Academy entered into a service contract with Charter School Specialists, LLC (CSS), for a period of twelve months, commencing on July 1, 2009, and ending on June 30, 2010, to provide fiscal and Comprehensive Continuous Planning consulting services. The Academy paid CSS \$38,110 in service fees for fiscal year 2010.

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14% of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78% 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% for plan members and 14% 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, 2010, 2009 and 2008 were \$21,607, \$12,686 and \$13,946, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 12 - PENSION PLANS (Continued)
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B. State Teachers Retirement System of Ohio

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, 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 a 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% 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.

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 fiscal year 2010, plan members were required to contribute 10% of their annual covered salaries. The Academy was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$98,703, \$102,882 and \$69,228, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 13 - POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Academy participates in two cost-sharing, multiple employer post-employment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

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% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46% of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the post-employment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$2,871, \$7,738 and \$6,267, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 13 - PENSION PLANS (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76% of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,285, \$1,047 and \$520, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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 2010, STRS Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$7,593, \$7,914 and \$5,325, respectively; 100% has been contributed for fiscal years 2010, 2009, and 2008.

NOTE 14 - CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the operating fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Academy at June 30, 2010.

**ARTS AND COLLEGE PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 14 - CONTINGENCIES (Continued)

B. State Foundation Funding

The Ohio Department of Education conducts reviews on enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the review after fiscal year end, the Ohio Department of Education overpaid the Academy \$4,375. This amount is reflected as intergovernmental payable on the basic financial statements.

NOTE 15 - TAX EXEMPT STATUS

The Academy was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization. Management is not aware of any course of action or series of events that might adversely affect the Academy's tax exempt status.

NOTE 16 - SIGNIFICANT SUBSEQUENT EVENTS

In fiscal year 2011, the Academy received the final loan proceeds from Huntington National Bank for the purchase and renovations to the new building. The loan was finalized in the amount of \$1,686,000.

The loan has a five-year maturity and a twenty-year amortization. The loan has a variable interest rate based on an interest rate swap, based on Huntington National Bank's Cost of Funds plus two hundred fifty basis points. At the time the loan was finalized, the interest rate would equate to 6.68%. The loan is collateralized by the purchased property.



**Report on Internal Control Over Financial Reporting and
On Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Directors of
Arts and College Preparatory Academy
Columbus, Ohio

We have audited the financial statements of Arts and College Preparatory Academy (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated February 23, 2010. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Arts and College Preparatory Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arts and College Preparatory Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

An internal control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A material weakness is a deficiency, or combination of internal control deficiencies, that results in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented or detected by the Academy's internal control.

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 deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses.



**Report on Internal Control Over Financial Reporting and
On Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards
(continued)**

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arts and College Preparatory Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and others within the Academy and is not intended to be and should not be used by anyone other than these specified parties.

Columbus, Ohio
February 23, 2010

Hemphill & Associates



Dave Yost • Auditor of State

ARTS AND COLLEGE PREPARATORY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 7, 2011**