



**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2010**



**Dave Yost • Auditor of State**



**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board:

We have audited the accompanying basic financial statements of the Arts and Science Preparatory Academy, Cuyahoga County, Ohio (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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arts and Science Preparatory Academy, Cuyahoga County, Ohio, as of June 30, 2010, and the changes in its financial position and 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 16 to the financial statements, the Academy's deficit net assets (\$1,035,288) and operating loss (\$656,727) raise substantial doubt about its ability to continue as a going concern. Note 16 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 28, 2011, 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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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.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The federal awards revenues and expenses schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards revenues and expenses schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

February 28, 2011

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010  
UNAUDITED**

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The discussion and analysis of the Arts and Science Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2010. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

**Highlights**

The Academy finished its fifth year of operations during fiscal year 2010 serving Kindergarten through eighth grade. Enrollment varied during fiscal 2010 but finished the year with 208 students.

Key highlights for fiscal year 2010 are as follows:

- Net assets decreased \$21,707.
- Operating expenses accounted for \$2,103,061 of the total expenses of \$2,196,475.
- Operating revenues accounted for \$1,446,334 of the total revenues of \$2,174,768.
- Academy had an operating loss of \$656,727 and all of the operating loss was alleviated by non-operating federal grants.

**Overview of the Financial Statements**

The financial report consists of three parts-management's discussion and analysis, the basic financial statements, and the notes to the basic financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Net Assets represents the statement of position of the Academy. The Statement of Revenues, Expenses, and Changes in Net Assets 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 full understanding of the data provided on the basic financial statements.

**Financial Analysis of the Academy as a Whole**

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

The following tables represent a summary of the Academy's condensed financial information for 2010 derived from the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010  
UNAUDITED  
(CONTINUED)**

Table 1 provides a summary of the Academy's net assets for 2010 compared to 2009:

Table 1  
Net Assets

	2010	2009	Change
<u>Assets:</u>			
Current Assets	\$158,134	\$129,248	\$28,886
Capital Assets	67,051	63,781	3,270
Total Assets	<u>225,185</u>	<u>193,029</u>	<u>32,156</u>
<u>Liabilities:</u>			
Current Liabilities	1,260,473	1,206,610	53,863
	<u>1,260,473</u>	<u>1,206,610</u>	<u>53,863</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	67,051	63,781	3,270
Restricted for Other Purposes	0	129	(129)
Unrestricted	(1,102,339)	(1,077,491)	(24,848)
Total Net Assets	<u>(\$1,035,288)</u>	<u>(\$1,013,581)</u>	<u>(\$21,707)</u>

Total net assets decreased \$21,707. The cause of the decrease was the Board's desire to continue to offer programming that would be attractive to the families of the area and to offer services and student staff ratios necessary to accelerate learning of students faster than the traditional single grade level gains. The goal of this investment is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. The Academy made significant progress towards this goal. Enrollment at the fiscal year ends 2010 and 2009 were 208 and 157, respectively. Enrollment in December 2010 is 190. The student capacity at its current facility is 400.

Based on the analysis that was done at the time the decision was made to open the Academy, the Board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. The Academy is experiencing the growth anticipated and we believe is on track to begin recovering from the investment that was made in the first five years of operations. Resources for the necessary programs have been made available by delaying payment on invoices from the Academy's management company for management services, other operating expenses and employee payroll.



**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010  
UNAUDITED  
(CONTINUED)**

Table 2 reflects the changes in net assets for fiscal year 2010 as compared to 2009.

Table 2  
Change in Net Assets

	2010	2009	Change
<u>Operating Revenues:</u>			
Foundation	\$1,434,011	\$1,153,976	\$280,035
Charges for Services and Miscellaneous	12,323	4,562	7,761
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	728,434	323,710	404,724
<b>Total Revenues</b>	<b>\$2,174,768</b>	<b>\$1,482,248</b>	<b>\$692,520</b>
<u>Operating Expenses:</u>			
Building	245,768	170,500	75,268
Purchased Services	1,696,677	1,450,707	245,970
Depreciation	20,945	17,144	3,801
General Supplies	120,846	105,168	15,678
Other Operating Expense	18,825	15,717	3,108
<u>Non-Operating Expenses:</u>			
Interest	93,414	90,214	3,200
<b>Total Expenses</b>	<b>\$2,196,475</b>	<b>\$1,849,450</b>	<b>\$347,025</b>
<b>Total Increase (Decrease) in Deficit Net Assets</b>	<b>(\$21,707)</b>	<b>(\$367,202)</b>	<b>\$345,495</b>

The fiscal year 2010 increase in revenues and expenses is primarily due to an increase in enrollment. The ending enrollment in fiscal year 2010 was 208 students compared to 157 at the end of fiscal 2009. In addition, in fiscal 2009 the Academy took advantage of an opportunity to assume additional space in its facility to accommodate an increase in future enrollment causing an increase in building rent expense.

**Budgeting**

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

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010  
UNAUDITED  
(CONTINUED)**

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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2010, the Academy had \$67,051 invested in capital assets (net of accumulated depreciation) for computer and other equipment, an increase of \$3,270 or 5.1 percent. The following table shows fiscal year 2010 compared to 2009:

Capital Assets at June 30 (Net of Depreciation)

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Furniture & Equipment	\$ 33,963	\$ 37,845	\$ (3,882)
Computers	10,688	18,936	(8,248)
Leasehold Improvements	<u>22,400</u>	<u>7,000</u>	<u>15,400</u>
Capital Assets - net	<u>\$ 67,051</u>	<u>\$ 63,781</u>	<u>\$ 3,270</u>

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

**Debt**

At June 30, 2010, the Academy had no capital leases or other long term debt outstanding.

**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 operation.

**Operations**

Arts and Science Preparatory Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. During 2010, the Academy offered education for Ohio children in kindergarten through eighth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

**Requests for Information**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact Brenda Neff, Treasurer for Arts and Science Preparatory Academy, 436 N. Wiley Street, Crestline, Ohio 44827.

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2010**

**Assets:**

***Current assets:***

Cash and Cash Equivalents	\$ 21,765
Intergovernmental Receivable	111,385
Prepaid Expense	24,984
<b>Total current assets</b>	<u>158,134</u>

***Noncurrent assets:***

Capital Assets, net of Accumulated Depreciation	67,051
<b>Total noncurrent assets</b>	<u>67,051</u>

<b>Total assets</b>	<u>\$ 225,185</u>
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**Liabilities:**

***Current liabilities:***

Accounts Payable, Trade	\$ 57,456
Accounts Payable, Related Party	1,203,017
<b>Total current liabilities</b>	<u>1,260,473</u>

**Net Assets**

Invested in Capital Assets, Net of Related Debt	67,051
Unrestricted Net Assets	(1,102,339)
<b>Total Net Assets</b>	<u>\$ (1,035,288)</u>

**See Accompanying Notes to the Basic Financial Statements**

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Operating Revenues:</b>	
Community School Foundation	\$ 1,434,011
Charge for Services	1,072
Miscellaneous	11,251
<b>Total Operating Revenues</b>	<u>1,446,334</u>
<b>Operating Expenses:</b>	
Building	245,768
Purchased Services	1,696,677
Depreciation	20,945
General Supplies	120,846
Other Operating Expenses	18,825
<b>Total Operating Expenses</b>	<u>2,103,061</u>
<b>Operating Loss</b>	<u>(656,727)</u>
<b>Nonoperating Revenues and Expenses:</b>	
Federal and State Restricted Grants	728,434
Interest Expense	(93,414)
<b>Net Nonoperating Revenues and Expenses</b>	<u>635,020</u>
<b>Change in Net Assets</b>	(21,707)
<b>Net Assets (Deficit) Beginning of Year</b>	<u>(1,013,581)</u>
<b>Net Assets (Deficit) End of Year</b>	<u><u>\$ (1,035,288)</u></u>

**See Accompanying Notes to the Basic Financial Statements**

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Foundation Receipts	\$ 1,450,471
Charge for Services	1,072
Other Operating Receipts	11,251
Cash Payments to Suppliers for Goods and Services	(2,037,754)
	<u>(574,960)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of Assets	<u>(24,215)</u>
Net Cash Used for Investment Activities	<u>(24,215)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Short-term Financing Payments	(93,414)
Federal and State Grant Receipts	<u>668,688</u>
Net Cash Provided by Noncapital Financing Activities	<u>575,274</u>

Net Decrease in Cash and Cash Equivalents	(23,901)
Cash and Cash Equivalents - Beginning of the Year	<u>45,666</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 21,765</u>

**Reconciliation of Operating Loss to Net Cash Used for Operating Activities**

Operating Loss	<u>\$ (656,727)</u>
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**Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities**

Depreciation	20,945
Changes in assets and liabilities:	
Increase in Receivables	22,643
Increase in Prepaid Expense	(15,684)
Increase in Accounts Payable, Trade	(48,718)
Increase in Accounts Payable, Related Party	102,581
<b>Net Cash Used for Operating Activities</b>	<u><u>\$ (574,960)</u></u>

**See Accompanying Notes to the Basic Financial Statements**

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**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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**Note 1 - Description of the School**

The Arts and Science Preparatory Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation pursuant to Ohio Revised Code Chapter 3314 under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005 and ending June 30, 2010. Subsequent to June 30, 2010, the contract was extended. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. (See Note 14).

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

**A. Basis of Presentation**

The Academy's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**B. Measurement Focus**

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The Statement of Cash Flows reflects how the Academy finances its cash flow needs.

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**C. Basis of Accounting**

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

**D. Budgetary Process**

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

**E. Cash and Cash Equivalents**

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the Statement of Net Assets. The Academy had no investments during the fiscal year ended June 30, 2010.

**F. Prepaid Items**

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2010, 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 2010 consisted of computers, furniture and equipment, and leasehold improvements. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars; however, all assets purchased through debt financing (i.e. leases) are capitalized. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.



**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**G. Capital Assets (Continued)**

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

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

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2010, there were no net assets restricted by enabling legislation.

The Statement of Net Assets reports no restricted net assets and \$67,051 invested in capital assets.

**I. Operating Revenues and Expenses**

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

**J. Estimates**

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

**K. Economic Dependency**

The Academy receives approximately 99% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

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**Note 3 – Changes in Accounting Principles**

For fiscal year 2010, the Academy has implemented Governmental Accounting Standards Board (GASB) *Statement No. 55, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”* and *Statement No. 56, “Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards”*

*GASB Statement No. 55* incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change in the Academy’s financial statements.

*GASB Statement No. 56* incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants’ and auditing literature into the GASB’s accounting and financial reporting literature for state and local governments. The statement’s guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the Academy’s 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, 2010, the bank balance of the Academy’s deposits was \$66,587, and the carrying value was \$21,765. The bank balance was covered by federal depository insurance, which covers deposits up to \$250,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**Note 5 – Receivables**

At June 30, 2010, the Academy had intergovernmental receivables in the amount of \$111,385. The receivables are expected to be collected within one year. During fiscal 2010, the Academy received \$22,642 in overpayments from the Ohio Department of Education (ODE). This overpayment will be deducted from future State Foundation funding.

	<u>Amount</u>
Title I Grant	\$61,770
21st Century	46,690
School Counselor Grant	12,591
IDEA Grant	8,862
SERS Over Funding	3,017
Title II D Grant	612
Title IV Grant	297
Title II A Grant	189
State Foundation Adjustment	<u>(22,643)</u>
Total	<u>\$ 111,385</u>

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

**Note 6 - Capital Assets**

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

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Computers	\$61,686	\$3,215	\$0	\$64,901
Furniture and Equipment	38,815	0	0	38,815
Leasehold Improvement	7,000	21,000	0	28,000
Less Accumulated Depreciation	(43,720)	(20,945)	0	(64,665)
Capital Assets, Net	<u>\$63,781</u>	<u>\$3,270</u>	<u>\$0</u>	<u>\$67,051</u>

**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 2010, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

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	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Business Personal Property	449,300
Excess/Umbrella Liability:	
Each Occurrence	3,000,000
Aggregate Limit	3,000,000

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

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

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**Note 8 – Purchased Services**

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

Service	<u>Amount</u>
Personnel	\$1,053,892
Staff and Administrative Services	370,047
Food Services	112,224
Building Services	80,079
Student Services	39,737
Sponsor Fee	29,107
Professional Services	5,900
Advertising	5,691
Total	<u><u>\$1,696,677</u></u>

**Note 9 - Defined Benefit Pension Plans**

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

**A. School Employee 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 2010, 12.74 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, 2010, 2009, and 2008 were \$9,638, \$7,109, and \$6,509 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

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**Note 9 - Defined Benefit Pension Plans (Continued)**

**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 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](http://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 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.

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

Funding Policy - For the fiscal year ended June 30, 2010, 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. 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, 2010, 2009, and 2008 were \$97,238, \$84,736, and \$71,473 respectively; 71 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$0 made by the Academy.

**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. As of June 30, 2010, none of the Academy staff have elected Social Security. The contribution rate is 6.2 percent of wages.

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

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**Note 10 - Postemployment Benefits**

**A. School Employee 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 2010, 0.5 percent of covered payroll was allocated to health care.

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

The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$378, \$3,244, and \$2,970 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$575, \$512, and \$469 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 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](http://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 percent 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 \$7,480, \$6,518, and \$5,498 respectively; 71 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

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**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, 2010.

**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. As a result of a recent review, it was determined that the Academy was over funded during fiscal 2010 by \$22,643. The amount was recognized at June 30, 2010 as a reduction to intergovernmental receivables (see Note 5).

**Note 12 – Building Leases**

In October 2008, the Academy entered into a lease agreement for the use of a facility effective January 1, 2009. The lease term extends through June 30, 2014 for the use of approximately 24,500 sq. ft. The base rent per the original lease for fiscal 2010 was \$21,979 per month. In July 2009, the landlord made improvements to the facility with a cost of \$35,000. The Academy reimbursed the landlord the \$35,000 improvement costs over a period of seven months August 2009 through February 2010. The \$35,000 cost is being capitalized as a leasehold improvement and will be amortized over the remaining life of the lease. The annual base rent escalates by 50 cents per square foot of rented space.

The total net rent expense for the fiscal year ended June 30, 2010 was \$245,768. The following table shows the future minimum lease payments required under the lease:

<u>Years Ending June30,</u>	<u>Future Minimum Lease Payments</u>
2011	276,309
2012	288,868
2013	301,428
2014	<u>313,987</u>
Total minimum lease payments	<u><u>\$1,180,592</u></u>

**Note 13 –Tax Exempt Status**

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

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

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**Note 14 – Related Party Transactions/Management Company**

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

The Academy contracts with Mosaica Education, Inc. for 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, budget preparation, accounts payable, and payroll preparation.

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy's revenue. The management fee for fiscal year 2010 was \$270,440.

Mosaica Education, Inc. pays for certain operating expenses on behalf of the Academy and subsequently invoices the Academy for reimbursement. Such expenses include: payroll, rent and insurance. The amount invoiced for reimbursement in fiscal 2010 was \$1,116,361.

At June 30, 2010, the Academy had payables to Mosaica Education, Inc. in the amount of \$1,203,017.

The following is a schedule of amounts owed to Mosaica Education, Inc at June 30, 2010.

	<u>Amount</u>
Payroll	\$743,334
Management Fee	314,621
Miscellaneous	68,497
Interest/Finance Charges	63,804
Rent	<u>12,761</u>
Total June 30, 2010	<u><u>\$1,203,017</u></u>

**Note 15 – Sponsor**

The Academy was approved for operation under a contract with the St. Aloysius Orphanage Council (the Sponsor) for a period of five academic years commencing July 18, 2005 and ending June 30, 2010. Subsequent to June 30, 2010, the contract was extended. As part of this contract, the Sponsor is entitled to a percentage of all revenues. Total amount due and paid for fiscal year 2010 was \$29,107.



**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Continued)**

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**Note 16 – Management’s Plan**

For fiscal year 2010, the Academy had an operating loss of \$656,727, a net loss of \$21,707, and net asset deficit of \$1,035,288.

The Academy’s net loss in fiscal year 2010 of \$21,707 was less than the net loss in fiscal year 2009 of \$367,202 primarily due to increased student enrollment. Final full-time equivalent student enrollment was 208 and 157 students for the fiscal years ending June 30, 2010 and 2009, respectively. Current full-time equivalent student enrollment as of December 2010 is 195 students. Cash fund balance at February 2011 is \$3,011.

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

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

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**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Grant Award Year	Federal CFDA Number	Revenues	Expenses
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Breakfast	2010	10.553	\$ 34,412	\$ 34,412
National School Lunch Program	2010	10.555	81,712	81,712
<b>Total U.S. Department of Agriculture</b>			<b>116,124</b>	<b>116,124</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to States	2010	84.027	39,144	39,144
Special Education Grants to States - ARRA	2010	84.391	23,435	23,435
Total Special Education Grants to States			62,579	62,579
State Fiscal Stabilization Fund - Education State Grants- ARRA	2010	84.394	99,055	99,055
Title I Grants to Local Educational Agencies	2010	84.010	154,207	154,207
Title I Grants to Local Educational Agencies - ARRA	2010	84.389	13,453	13,453
Total Title I Grants to Local Educational Agencies			167,660	167,660
Safe and Drug Free Schools and Communities - State Grants	2010	84.186	629	629
Twenty-first Century Community Learning Centers	2010	84.287	177,558	177,558
Improving Teacher Quality State Grants	2010	84.367	6,145	6,145
School Improvement Grants	2010	84.377	27,742	27,742
Educational Technology State Grants	2010	84.318	2,694	2,694
<b>Total U.S. Department of Education</b>			<b>544,062</b>	<b>544,062</b>
<b>Totals</b>			<b>\$ 660,186</b>	<b>\$ 660,186</b>

*The accompanying notes are an integral part of this schedule.*

**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Revenues and Expenses Schedule (the Schedule) reports the Arts and Science Preparatory Academy (the Academy's) federal award programs' revenues and expenses. The schedule has been prepared on the accrual basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The Academy commingles revenues from the U.S. Department of Agriculture with similar State grants. When reporting expenses on this Schedule, the Academy assumes it expends federal monies first.



# Dave Yost • Auditor of State

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

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

To the Board:

We have audited the financial statements of the Arts and Science Preparatory Academy, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 28, 2011, 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

### **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 did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 28, 2011.

We intend this report solely for the information and use of the audit committee, management, the Board, the Academy's sponsor (the St. Aloysius Orphanage), federal awarding agencies, and pass-through entities, and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

February 28, 2011



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board:

### Compliance

We have audited the compliance of the Arts and Science Preparatory Academy, Cuyahoga County, Ohio (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Academy's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Arts and Science Preparatory Academy, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

### Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect the major federal programs, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated February 28, 2011.

We intend this report solely for the information and use of the audit committee, management, the Board, the Academy's sponsor (the St. Aloysius Orphanage), federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

February 28, 2011



**ARTS AND SCIENCE PREPARATORY ACADEMY  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2010**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I, CFDA # 84.010 Title I ARRA, CFDA #84.389 21 <sup>st</sup> Century, CFDA # 84.287
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

**ARTS AND SCIENCE PREPARATORY ACADEMY**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 29, 2011**