



**Auditor of State
Betty Montgomery**

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes In Net Assets.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report On Internal Control Over Financial Reporting and On Compliance And Other Matters Required By <i>Government Auditing Standards</i>	21

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Columbus Preparatory Academy
Franklin County
3330 Chippewa Street
Columbus, Ohio 43204

To the Governing Board:

We have audited the accompanying basic financial statements of the Columbus Preparatory Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2005, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Columbus Preparatory Academy, Franklin County, Ohio, as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 17 to the financial statements, the Academy's net assets (\$957,960) and operating loss (\$1,038,394) raise substantial doubt about its ability to continue as a going concern. Note 17 describes management's plans 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 March 31, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

March 31, 2006

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

The discussion and analysis of the Columbus Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No 34, *Basic Financial Statements – and Management's Discussion and Analysis – State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, however, since this is the first year of operation for the Academy, there is no comparison data available for fiscal year 2005. This information will be added in future years.

FINANCIAL HIGHLIGHTS

- Net Assets decreased \$957,960
- Operating Revenues accounted for \$975,804
- Capital asset additions of \$192,350

USING THIS FINANCIAL REPORT

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the account used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the Academy's net assets for fiscal year 2005. Since this is the first year of operation for the Academy, comparisons with the prior year are not available. In future years, when prior-year information is available, a comparative analysis of data will be presented

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)
(Continued)**

Table 1
Net Assets

Assets	
Current	\$91,875
Capital assets, net	168,111
	\$259,986
 Liabilities	
Current Liabilities	1,142,946
Non-current Liabilities	75,000
Total Liabilities	1,217,946
 Net Assets	
Invested in Capital Assets, Net	14,381
Unrestricted	(972,341)
	\$(957,960)
Total Net Assets	

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005. Since this is the first year of operation, revenue and expense comparisons to Fiscal Year 2004 are not available.

Table 2
Changes in Net Assets:

Operating Revenues:	
Foundation Receipts	\$ 928,114
Charges for Services	27,027
Other Operating Receipts	20,663
Total Operating Revenues	\$ 975,804
 Operating Expenses:	
Salaries	584,694
Benefits	148,742
Building	513,002
Purchased Services	385,461
Depreciation	24,239
General Supplies	216,236
Other Operating Expenses	141,824
Total Operating Expenses	2,014,198
Operating Loss	(1,038,394)
 Non-operating Revenue:	
Federal Restricted Grants	\$ 80,434
Total Non-operating Revenues	\$ 80,434
Change in Net Assets	(957,960)
Net Assets Beginning of Year	-
Net Assets End of Year	\$(957,960)

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)
(Continued)**

Results of fiscal year 2005 indicate a decrease in net assets of \$957,960 and ending net assets of \$(957,960). The decrease is the result of an operating loss in the Academy's first year of operations. Resources for the necessary programs came from delaying payment on certain invoices from the academy's management company for certain rents, management services, other operating expenses and invoices for payroll of academy staff. The board is planning on entering into a multi-year financing arrangement to spread these costs over the next five years.

BUDGET

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the University of Toledo Charter School Council, does not prescribe a budgetary process for the Academy other than preparing a five-year forecast in accordance with Ohio Revised Code Section 5705.391.

CAPITAL ASSETS

At the end of fiscal year 2005, the academy had \$168,111 net of accumulated depreciation invested in computer equipment and telephone and surveillance equipment. A summary of the Academy's capital assets at June 30, 2005:

Equipment:	\$192,350
Less: Accumulated Depreciation	<u>(24,239)</u>
Net Capital Assets	<u>\$168,111</u>

The Columbus Preparatory Academy has other assets but these were not included in the capital asset listing as these assets were valued below the capital asset threshold. The assets listed above were acquired in the current fiscal year.

ECONOMIC FACTORS

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

OPERATIONS

Columbus Preparatory Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades K-5. Grade 6 is being added in the 2005-2006 academic year. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the academy.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact Michael Troper, Controller of the Columbus Preparatory Academy, 3330 Chippewa Street, Columbus, Ohio, 43204.

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

Assets:

Current assets:

Cash and cash equivalents	\$ 67,574
Accounts Receivables, Trade	8,361
Intergovernmental Receivable	1,138
Prepaid expense	14,802
Total current assets	<u>91,875</u>

Noncurrent assets:

Capital assets, net of Accumulated Depreciation	168,111
Total noncurrent assets	<u>168,111</u>

Total assets	<u>259,986</u>
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Liabilities:

Current liabilities:

Accounts Payable, Trade	91,266
Accounts Payable, Related Party	940,578
Accrued Wages	24,714
Benefits Payable	7,658
Current portion of long-term debt	78,730
Total current liabilities	<u>1,142,946</u>

Noncurrent liabilities:

Noncurrent portion of long-term debt	75,000
Total noncurrent liabilities	<u>75,000</u>

Total liabilities	1,217,946
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Net Assets

Invested in Capital Assets, Net of Related Debt	14,381
Unrestricted	(972,341)
Total Net Assets	<u><u>\$(957,960)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Operating Revenues:	
Foundation Receipts	\$ 928,114
Charge for Services	27,027
Other Operating Receipts	20,663
Total Operating Revenues	975,804
Operating Expenses:	
Salaries	584,694
Fringe Benefits	148,742
Building	513,002
Purchased Services	385,461
Depreciation	24,239
General Supplies	216,236
Other Operating Expenses	141,824
Total Operating Expenses	2,014,198
Operating Loss	(1,038,394)
Nonoperating Revenue:	
Federal Restricted Grants	80,434
Total Nonoperating Revenues	80,434
Change in Net Assets	(957,960)
Net Assets Beginning of Year	-
Net Assets End of Year	\$(957,960)

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Cash flows from operating activities

Foundation receipts	\$928,114
Charge for services	18,666
Other Operating Receipts	20,663
Cash payments to suppliers for goods and services	(239,481)
Cash payments to employees for services and benefits	<u>(701,064)</u>
Net Cash Provided by Operating Activities	<u>26,898</u>

Cash flows from noncapital financing activities

Federal and state grants	<u>79,296</u>
Net Cash Provided by Noncapital Financing Activities	<u>79,296</u>

Cash flows from capital and related financial activities

Capital lease payments	<u>38,620</u>
Net cash Used for Capital and Related Financing Activities	<u>(38,620)</u>

Net Increase in Cash and Cash Equivalents	67,574
Cash and Cash Equivalents – Beginning of year	<u>0</u>
Cash and Cash Equivalents – End of year	<u><u>\$67,574</u></u>

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating loss	<u>\$(1,038,394)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	<u>24,239</u>
Changes in assets and liabilities:	
Increase in accounts receivable, trade	(8,361)
Increase in prepaid expense	(14,802)
Increase in accounts payable – trade	91,266
Increase in accounts payable, related party	940,578
Increase in accrued wages and benefits	<u>32,372</u>
Net cash provided by operating activities	<u><u>\$26,898</u></u>

Noncash operating activities

The Academy's management company paid \$ 940,578 for operating expenses on behalf of the Academy

Noncash Capital and Related Financing Activities

Capital lease obligations of \$192,350 were incurred when the Academy entered into a lease for computers and for telephone and surveillance equipment.

See Accompanying Notes to the Basic Financial Statements

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

The Columbus Preparatory Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades K-5. Grade 6 is being added in the 2005-2006 academic year. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the academy.

The Academy was approved for operation under a contract with the University of Toledo Charter School Council (the Sponsor) for a period of four academic years commencing after July 1, 2004 and ending June 30, 2008. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives of owners or employees of any for-profit firm that operate or manages an academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements at the Academy have been prepared in conformity with generally accepted accounting principles (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) statements and interpretations 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 Statements and Interpretations issued after November 30, 1989.

A. Basis of Presentation - Fund Accounting

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and change in net assets, and a statement of cash flows. Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in net assets present increases (i.e. revenues) and decreases (i.e. expenses) in total net assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Revenues – Exchange and Non-exchange Transactions – 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. Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year 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.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy other than the preparation of a five-year forecast in accordance with Ohio Revised Code Section 5705.391.

E. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash.

F. Estimates

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

G. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy maintains a capitalization threshold of one-thousand-five-hundred dollars. The Academy did not capitalize any interest during the fiscal year. 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. Depreciation of furniture and equipment is computed using the straight-line method over the estimated useful life of three to seven years. The Academy does not have any infrastructure.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program. These funds are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal, state, and local grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

The Academy received \$80,434 of federal restricted grants in 2005.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Academy, these revenues are foundation payments and food service receipts. Operating expenses are the necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses

K. Economic Dependency

The Academy receives approximately 95% of its operating revenue from the Ohio Department of Education. Due to this significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

3. CASH DEPOSITS

At June 30, 2005, the carrying amount of the Academy's deposits was \$67,574 and the bank balance was \$ 126,321. The Federal Depository Insurance Corporation (FDIC) covered \$100,000 of the bank balance, while \$26,321 of the bank balance was exposed to custodial credit risk. Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. The Academy does not have any policy for custodial credit risk.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

4. RECEIVABLES

The Academy had intergovernmental receivables of \$1,138 and trade accounts receivable of \$8,361. All receivables are considered collectible in full.

5. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2005:

Computers	\$97,851
Less: Accumulated Depreciation	<u>(17,939)</u>
Net Computer Equipment	<u>79,912</u>
Telephone Equipment	94,499
Less: Accumulated Depreciation	<u>(6,300)</u>
Net Telephone Equipment	<u>88,199</u>
Net Capital Assets	<u>\$168,111</u>

The Academy has other assets but these were not included in the capital asset listing as these assets were valued below the capital asset threshold.

6. PURCHASED SERVICES

For the fiscal year ended June 30, 2005, Purchased Services Expenses were as follows:

Service	Amount
Building/Custodial	\$ 82,573
Consulting	2,600
Food Services	44,043
Information Technology	2,602
Legal Fees	6,237
Management Fee	121,709
Printing	7,609
Special Education/Nursing	75,656
Sponsor Fee	27,843
Temporary Services	13,800
Training	<u>789</u>
Total:	\$ 385,461

7. RISK MANAGEMENT

A. Property and Liability

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. The Academy maintains insurance coverage for rental/theft, general liability and directors and officers liability in amounts which the governing board deems adequate.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

The Academy paid the State Workers' Compensation System a premium for employee injury coverage during fiscal year 2005. The premium was calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State.

C. Employee, Medical, Dental, and Vision Benefits

The Academy has contracted with a private carrier to provide employee health insurance benefits. The Academy pays 100% medical and dental coverage for the employee only; additional coverage for employee's dependents is the employee's financial responsibility.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005 was \$12,453.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

a. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Academy's required contribution for pension obligations for the DBP for the fiscal year ended June 30, 2005 was \$60,695; 100 percent has been contributed for fiscal year 2005. No employees contribute to the DCP and CP for the fiscal year ended June 30, 2005.

9. POSTEMPLOYMENT BENEFITS

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount was \$4,669 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by fifty percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the Academy, the amount to fund health care benefits, including the surcharge, was \$5,836 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

10. 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, 2005.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

10. CONTINGENCIES (Continued)

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Academy is not presently determinable.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to state funding for fiscal year 2005 as a result of such review.

11. BUILDING LEASES

The Academy leases a building. The term of this lease ends June 30, 2014. Total lease payments were \$468,000 for the year ended June 30, 2005. The lease payments for fiscal year 2005 included payments for 9.5 months only. In subsequent year, the lease payments will be for the full 12 months.

Year Ending June 30	<u>Lease Payment</u>
2006	618,000
2007	636,540
2008	655,636
2009	675,305
2010	695,564
<u>2011-2014</u>	<u>2,997,281</u>
Total:	\$6,278,326

12. OPERATING LEASES

In August of 2004, the Academy entered into an operating lease for three years with American Industrial Leasing, Inc., for the use of classroom furnishings. Total lease payments during fiscal year 2005 for this lease were \$9,214.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

13. CAPITAL LEASE

The Academy has entered into capital lease obligations for the use of computer equipment and for the use of telephone and surveillance equipment. The total cost of this equipment, which is included in the Academy's capital assets, is \$192,350.

The Following is a schedule of the future long-term minimum lease payments, required under the capital lease, and the present value of the minimum lease payment at June 30, 2005.

Year Ending	Lease Payments
June 30, 2006	\$ 92,218
June 30, 2007	64,621
June 30, 2008	15,667
Less: Amt representing interest:	<u>(18,777)</u>
Present Value of Minimum Lease Payments	<u>\$ 153,729</u>

14. TAX EXEMPT STATUS

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

15. RELATED PARTY TRANSACTIONS/MANAGEMENT COMPANY

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

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of academy revenues. The management fee for fiscal year 2005 was \$121,709.

At June 30, 2005, the Academy had payables to Mosaica Education in the amount of \$940,578. This includes rent due for \$400,000, payroll for \$361,898, management fees of \$84,209 and other operating expenses of \$94,471.

16. SPONSOR

The Academy was approved for operation under a contract with the University of Toledo Charter School Council (the Sponsor) for a period of four academic years commencing July 1, 2004. As part of this contract, the Sponsor is entitled to a maximum of 3% of all revenues. Total amount due and paid for fiscal year 2005 was \$27,843.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

17. MANAGEMENT'S PLAN

For fiscal year 2005, the Academy had an operating loss (\$1,038,394), and net asset deficit (\$957,960). In addition, The Academy had a related party accounts payable of \$ 940,578. Projected revenues and expenses for fiscal year 2006 indicate these financial difficulties will not be completely eliminated during fiscal year 2006 but may be eliminated in fiscal year 2007. The Academy intends to meet cash flow needs and finance operating losses through loans from its management company. On December 7, 2005, the Academy entered into a note agreement with Mosaica Education for \$ 763,631. The agreement stipulates the repayment of the note over a five year period.

The Academy had an operating loss for fiscal year 2005. This is due to the significant costs necessary for first year operations. While community schools are eligible to receive start-up grant funding up to \$300,000 in the form of the Charter School Program Grant, the Academy did not receive this start-up grant funding during fiscal year 2005. Receipt of this grant funding would have assisted in absorbing some of the costs associated with opening the Academy during its initial year of operations. However, the Academy did apply for this grant funding for fiscal year 2006, and was subsequently awarded \$300,000.

Management plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents of children who are currently enrolled in the Academy. The Academy had approximately 162 full-time equivalent students enrolled in May 2004. In March 2006, the Academy had 357 full-time equivalent students enrolled.



Auditor of State Betty Montgomery

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

Columbus Preparatory Academy
Franklin County
3330 Chippewa Street
Columbus, Ohio 43204

To the Governing Board:

We have audited the basic financial statements of the Columbus Preparatory Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 31, 2006 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated March 31, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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*. In a separate letter to the Academy's management dated March 31, 2006, we reported other matters related to noncompliance we deemed immaterial.

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We intend this report solely for the information and use of the management and the Board of Governors.
It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 31, 2006



**Auditor of State
Betty Montgomery**

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COLUMBUS 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
MAY 23, 2006**