CORNERSTONE ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006 AND FOR THE PERIOD OF JULY 1, 2006 TO SEPTEMBER 30, 2006

CORNERSTONE ACADEMY
FRANKLIN COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Cornerstone Academy
Franklin County
6023 East Walnut Street
Westerville, Ohio 43081

To the Board of Directors:

We have audited the accompanying financial statements of Cornerstone Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2006 and the period July 1, 2006 to September 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cornerstone Academy, Franklin County, Ohio as of June 30, 2006 and September 30, 2006, and the changes in financial position and its cash flows for the year and period then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 15, the Academy was placed on suspension status September 11, 2006 by St. Aloysius Orphanage (the Sponsor). In addition, as disclosed in Note 17, the Sponsor gave the Academy permission on September 20, 2007 to resume operations.

Furthermore, the Academy is experiencing certain financial difficulties. Those difficulties and management's plan are discussed in Note 16.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2008, 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.

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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.

The Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 8, 2008

The discussion and analysis of the Cornerstone Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006 and for the period July 1, 2006 to September 30, 2006. 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 first year of operations during fiscal year 2006 serving Kindergarten through third grade. Enrollment varied during the year but averaged 64 students.

As of and for fiscal year ended June 30, 2006:

- Net Assets decreased $258,222.
- Operating Revenues accounted for $417,835 of the Academy's funding.
- The Academy had an operating loss of $301,004 and $42,782 of the operating loss was funded by non-operating federal grants. The Academy was able to fully utilize the federal grant allocations for fiscal year 2006.

As of and for September 30, 2006:

- Net Assets increased $7,785.
- Operating Revenues accounted for $71,144 of the Academy's funding.
- The Academy had an operating income of $6,392.

Overview of the Financial Statements

The financial report consists of three parts-management discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the academy. Enterprise accounting uses a flow of economic resource measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the statement of position of the Academy. The statement of revenues, expenses, and changes in net assets present increases (e.g., revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided 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 table represents the Academy's condensed financial information for 2006 and the period July 1, 2006 to September 30, 2006 derived from the statement of net assets.

Table 1
Net Assets

	September 30, 2006	June 30, 2006	June 30, 2005
Assets			
Current Assets	$42,438	$31,992	$25,187
Capital Assets, Net	107,094	112,071	-
Total Assets	149,532	144,063	25,187
Liabilities			
Current Liabilities	321,280	313,905	10,919
Non-current Liabilities	64,421	74,112	-
Total Liabilities	385,701	388,017	10,919
Net Assets			
Invested in Capital Assets, Net of Related Debt	5,842	(6,637)	-
Restricted for Other Proposes	-	2,913	8,464
Unrestricted	(242,011)	(240,230)	5,804
Total Net Assets	$(236,169)	$(243,954)	$14,268

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006 the period July 1, 2006 to September 30, 2006.

Table 2
Changes in Net Assets for the year ended June 30, 2006

	September 30, 2006	June 30, 2006	June 30, 2005
Operating Revenues:			
Foundation Receipts	$68,647	$392,653	$268,145
Disadvantaged Pupil Impact Aid	-	-	71,855
Charge for Services	2,497	25,182	5,608
Other Operating Revenue	-	-	40,151
Total Operating Revenues	71,144	417,835	385,759
Operating Expenses:			
Salaries	-	-	202,030
Fringe Benefits	-	-	46,445
Building	6,940	60,666	-
Purchased Services	47,135	509,271	102,194
Depreciation	4,978	6,637	-
General Supplies	1,307	108,734	15,688
Other Operating Expenses	4,392	33,531	20,606
Total Operating Expenses	64,752	718,839	386,963
Operating Income (Loss)	6,392	(301,004)	(1,204)
Non-operating Revenues:			
Interest Earnings	-	-	297
State Restricted Grants	-	-	3,088
Federal Restricted Grants	1,393	42,782	24,816
Total Non-operating Revenues and Expenses	2,507	42,782	28,201
Change in Net Assets	7,785	(258,222)	26,997
Net Assets Beginning of Year	(243,954)	14,268	(12,729)
Net Assets End of Year	$(236,169)	$(243,954)	$14,268

The Academy operates as a one business-type enterprise fund; therefore analysis of balances and transactions of individual funds is not included in the discussion and analysis. Results of fiscal year 2006 operations indicate a decrease in net assets of $258,222 and corresponding ending net assets of $(243,954). For the period July 1, 2006 to September 30, 2006, the net assets increased $7,785 to $(236,169). The salaries and fringe benefits decreased due to the fact that the teachers were no longer employees of the Academy. The Academy reimbursed the management company for the teacher's services; thus the increase in purchased services.

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At the end the three month period ending September 30, 2006, the Academy had $107,094 net of accumulated depreciation invested in capital assets. A summary of the Academy's capital assets at September 30, 2006:

	Business-Type Activities		Increase (Decrease)
	September 30, 2006	June 30, 2006	
Computers	$80,393	$80,393	-
Less: Accumulated Depreciation	(9,379)	(5,360)	(4,019)
Net Capital Assets:	$71,014	$75,033	(4,019)
Furniture and Fixtures	$38,315	$38,315	-
Less: Accumulated Depreciation	(2,235)	(1,277)	(958)
Net Capital Assets:	$36,080	$37,038	(958)
Net Capital Assets	$107,094	$112,071	(4,977)

At the September 30, 2006, the Academy had $101,252 of capital lease obligations for technology and furniture and fixtures outstanding. Of that amount $36,831 is due within one year. For further information regarding the Academy's debt, refer to Note 12 to the basic financial statements.

Economic Factors

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

Operations

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through third 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 Michael Trooper, Controller of the Academy, 3330 Chippewa Street, Columbus, Ohio 43204.

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CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 8,917
Accounts Receivable, Trade	62
Intergovernmental Receivable	2,913
Prepaid Expense	20,100
Total Current Assets	31,992
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	112,071
Total Non-Current Assets	112,071
Total Assets	144,063
Liabilities:	
Current Liabilities:	
Accounts Payable, Trade	131,344
Accounts Payable, Related Party	146,981
Current Portion of Long-Term Debt	35,580
Total Current Liabilities	313,905
Non-Current Liabilities:	
Non-Current Portion of Long-Term Debt	74,112
Total Non-Current Liabilities	74,112
Total Liabilities	388,017
Net Assets	
Invested in Capital Assets, Net of Related Debt	(6,637)
Restricted	2,913
Unresricted	(240,230)
Total Net Assets	$ (243,954)

See accompanying notes to the basic financial statements

CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR YEAR ENDED JUNE 30, 2006

Operaiting Revenues:	
Foundation Receipts	$ 392,653
Charges for Services	25,182
Total Operating Revenues	417,835
Operating Expenses:	
Building	60,666
Purchased Services	509,271
Depreciation	6,637
General Supplies	108,734
Other Operating Expenses	33,531
Total Operating Expenses	718,839
Operating Loss	(301,004)
Non-Operating Revenues and Expenses:	
Federal Restricted Grants	42,782
Net Non-Operating Revenues and Expenses	42,782
Change in Net Assets	(258,222)
Net Asssets Beginning of Year	14,268
Net Assets End of Year	$ (243,954)

See accompanying notes to the basic financial statements

CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR YEAR ENDED JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 392,653
Cash Received from Sales	25,120
Cash Payments to Building	(60,666)
Cash Payments for Purchased Services	(261,964)
Cash Payments for General Supplies	(108,734)
Cash Payments for Other Operating Expenses	(33,531)
Net Cash Used for Operating Activities	(47,122)
Cash Flows from Noncapital Financing Activities:	
Federal and State Restricted Grants	41,869
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Lease Principal Retirement	(9,017)
Net Decrease in Cash and Cash Equivalents	(14,270)
Cash and Cash Equivalents at Beginning of Year	23,187
Cash and Cash Equivalents at End of Year	$ 8,917
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(301,004)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	6,637
Changes in Assets and Liabilties:	
Increase/Decrease in Accounts Receivable	(62)
Increase/Decrease in Intergovernmental Receivable	-
Increase/Decrease in Prepaid Expenses	(20,100)
Increase/Decrease in Accounts Payable	274,279
Decrease Intergovernmental Payable	(6,872)
Net Cash Used for Operating Activities	$ (47,122)
Noncash operating activities	
The Academy’s management company paid $ 146,981 for operating expenses on behalf of the Academy	-

Noncash Capital and Related Financing Activities
Capital lease obligations of $118,708 were incurred when
the Academy entered into a lease for computers and for telephone

See accompanying notes to the basic financial statements

CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 17,451
Prepaid Expenses	24,987
Total Current Assets	42,438
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	107,094
Total Non-Current Assets	107,094
Total Assets	149,532
Liabilities:	
Current Liabilities:	
Accounts Payable, Trade	113,265
Accounts Payable, Related Party	171,184
Current Portion of Long-Term Debt	36,831
Total Current Liabilities	321,280
Non-Current Liabilities:	
Non-Current Portion of Long-Term Debt	64,421
Total Non-Current Liabilities	64,421
Total Liabilities	385,701
Net Assets	
Invested in Capital Assets, Net of Related Debt	5,842
Unresricted	(242,011)
Total Net Assets	$ (236,169)

See accompanying notes to the basic financial statements

CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD JULY 1, 2006 TO SEPTMEMBER 30,2006

Operaiting Revenues:		
Foundation Receipts	$	68,647
Charges for Services		2,497
Total Operating Revenues		71,144
Operating Expenses:		
Building		6,940
Purchased Services		47,135
Depreciation		4,978
General Supplies		1,307
Other Operating Expenses		4,392
Total Operating Expenses		64,752
Operating Income		6,392
Non-Operating Revenue		
Federal Restricted Grants		1,393
Change in Net Assets		7,785
Net Asssets Beginning of Year		(243,954)
Net Assets End of Year	$	(236,169)

See accompanying notes to the basic financial statements

CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE PERIOD JULY 1, 2006 TO SEPTMEMBER 30,2006

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 68,709
Cash Received from Sales	2,497
Cash Payments to Building	(6,940)
Cash Payments for Purchased Services	(45,898)
Cash Payments for General Supplies	(1,307)
Cash Payments for Other Operating Expenses	(4,392)
Net Cash Provided by Operating Activities	12,669
Cash Flows from Noncapital Financing Activities:	
Federal and State Restricted Grants	4,305
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Lease Principal Retirement	(8,440)
Net Increase in Cash and Cash Equivalents	8,534
Cash and Cash Equivalents at Beginning of Year	8,917
Cash and Cash Equivalents at End of Year	$ 17,451
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	6,392
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	4,978
Changes in Assets and Liabilties:	
Increase/Decrease in Accounts Receivable	62
Increase/Decrease in Prepaid Expenses	(4,887)
Increase/Decrease in Accounts Payable	6,124
Net Cash Provided by Operating Activities	$ 12,669

Noncash operating activities
The Academy’s management company paid $ 24,203 for operating expenses on behalf of the Academy

See accompanying notes to the basic financial statements

Note 1 - Description of the School

The Cornerstone Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in kindergarten, Grade 1, Grade 2, and Grade 3. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operation. 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 contract with the Ohio State Board of Education commencing on July 1, 2000. The Academy began the 2005-06 fiscal year under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2010. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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 or owners or employees of any for-profit firm that operates or manages an academy for the Governing Board. The Board is responsible for carry out the provisions of the contract that include, but are not limited to, state-mandated provision 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 relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 15.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the period ended September 30, 2006.

F. Capital Assets

The Academy's capital assets during the year ended June 30, 2006 and the period ending September 30, 2006 consisted of computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets leases, except land and construction in progress, 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:

Description	Useful Lives
Furniture, Fixtures, and Equipment	5-20 years

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

H. 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.

I. 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.

J. Economic Dependency

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

Note 3 – Changes in Accounting Principles

For the fiscal year ended June 30, 2006 the Academy implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. There was no effect on the financial statements.

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2006, the carrying value of the Academy's deposits totaled $8,917 and the bank balance totaled $9,780. The bank balance was covered by federal depository insurance which covers deposits up to $100,000. The Academy has no investments at year end.

At September 30, 2006, the carrying value of the Academy's deposits totaled $17,451 and the bank balance totaled $17,451. The bank balance was covered by federal depository insurance which covers deposits up to $100,000.

Note 5 – Receivables

At June 30, 2006, the Academy had intergovernmental receivables, in the amount of $2,913. The receivables are expected to be collected within one year.

Grant	Amount
Title I	$2,744
Title II-D	169
Total Intergovernmental Receivable	$2,913

At September 30, 2006, the Academy did not have any intergovernmental receivables.

Note 6 - Capital Assets

Capital asset activity for the period July 1, 2006 to June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Depreciable Capital Assets				
Computer Technology	$0	80,393	0	$80,393
Furniture & Equipment	0	38,315	0	$38,315
Total at Historical Cost	0	118,708	0	118,708
Computer Technology	0	(5,360)	0	($5,360)
Furniture & Equipments	0	(1,277)	0	($1,277)
Governmental Activities Capital Capital Assets, Net	$0	$112,071	$0	$112,071

There were no capital assets additions or deletions during the period July 1, 2006 to September 30, 2006. There fore capital assets, net accumulated depreciation at September 30, 2006, are $107,094.

Note 7 - Risk Management

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006 , the Academy contracted with Archer-Meek-Weiler Agency, Inc. through Cincinnati Insurance Company for property and general liability insurance. The policy calls for coverage of $1,000,000 single occurrence limit and $2,000,000 aggregate and $1,000 deductible. There has been no signficant changes or settlements in excess of insurance coverage for the past three years.

B. Workers' Compensation

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

C. Other Employee Benefits

The Academy provides life insurance and accidental death and dismemberment, medical/surgical, dental and vision insurance to most employees through School Employees' Health and Welfare Benefits Plan and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board.

Note 8 – Purchased Services

For fiscal year ended June 30, 2006, and the period July 1, 2006 to September 30, 2006, purchased service expenses were for the following services:

Service	September 30, 2006	June 30, 2006
Management Fee	$ 5,621	$ 52,168
Building/Custodial	0	69,313
Consulting	0	13,369
Food Service	0	16,208
Legal Fees	0	712
Other Services	0	13,402
Printing	0	2,796
Special Education/Nursing	0	13,628
Sponsor Fee	686	3,888
Personnel Services	40,828	320,717
Training	0	3,070
Total:	$ 47,135	$ 509,271

Note 9 – Defined Benefit Pension Plans

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

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit 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, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

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 2006, 10.58 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, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2006 was $3,490. The required contributions for the period July 1, 2006 to September 30, 2006 was $223.84; 100 percent of these amount has been contributed.

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

<u>Note 9 – Defined Benefit Pension Plans</u> (Continued)

<u>B. State Teachers Retirement System of Ohio</u> (Continued)

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 balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan 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 DC Plan 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2006 was $14,914. The required obligations for the period July 1, 2006 to September 30, 2006 was $1,379.09, 100 percent has been contributed. No employees contribute to the DCP and CP for the period July 1, 2006 to September 30, 2006.

<u>Note 10 – Postemployment Benefits</u>

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $7,160 for fiscal year 2006.

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

Note 10 – Postemployment Benefits (Continued)

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 retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled $1,887.

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 the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were $178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

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, 2006 or September 30, 2006.

B. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et. Al., Case #3:04CV197*** was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

Note 12 – Capital Lease-Lessee Disclosure

The Academy entered into one lease agreements in fiscal year 2006 with Relational LLC for technology equipment (computers). The Academy's lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases". The technology equipment has been capitalized in the amount of $118,708 respectively, the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows for June 30, 2006:

Year Ending June 30	Technology
2007	$ 48,617
2008	48,617
2009	36,463
Total future minimum lease payments	133,695
Less: amount representing interest	(24,003)
Present value of future minimum lease payments	$ 109,692

A liability for capital lease obligations in the amount of $109,962 is reported on the Statement of Net Assets for year ended June 30, 2006. Of this amount, $35,580 is a current liability due within one year and $74,112 is a long-term liability due in more than one year.

In addition, the Academy paid $8,440 of the capital lease payments during the period July 1, 2006 to September 30, 2006. A liability for capital lease obligations in the amount of $101,252 is reported on the Statement of Net Assets. Of this amount, $36,831 is a current liability due within one year and $64,421 is a long-term liability due in more than one year.

Note 13 –Tax Exempt Status.

The Academy completed their application for tax-exempt status under 501(c) 3 of the Internal Revenue Code on May 11, 2000 and was approved for tax-exempt status on October 31, 2000. Management was not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

Note 14 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for a variety of services including management of personnel and human resources, board relations, financial management, marketing, 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.

Note 14 – Related Party Transactions/Management Company (Continued)

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for the period was $5,621and $52,168 for September 30, 2006 and June 30, 2006, respectively.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc. employees working at the Academy, and other costs related to providing educational and administrative services.

At June 30, 2006, the Academy had payables to Mosaica Education in the amount of $146,981 and at September 30, 2006, the Academy had payables to Mosaica Education in the amount of $171,184.

The following is a schedule of all expenses billed by Mosaica Education, Inc. as of the Fiscal Year ended June 30, 2006 and the period July 1, 2006 to September 30, 2006

	September 30, 2006	June 30, 2006
Payroll	$9,699	$224,368
Management Fee	16,656	66,625
Materials and Supplies	2,656	50,745
Rent	0	5,813
Interst/Finance Charges	0	2,015
Total	$29,011	$349,566

The Board members for the Academy are also Board members for other Mosaica Education Schools.

Note 15 – Sponsor

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 18, 2005. As part of this contract, the Sponsor is entitled to a maximum of 1% of the total state funds. Total amount due and paid for year ended June 30, 2006 and the period July 1, 2006 to September 30, 2006 was $3,888 and $ 686, respectively.

On September 11, 2006, the Sponsor suspended the Academy's operations due to the following violations of the sponsorship agreement:

- The Academy accumulated significant debt and does not have a plan to remediate.
- Failed to enroll a minimum number of students
- Failed to complete assurances site visits prior to opening
- Modified enrollment demographics without approval from the Sponsor
- Changed facility location without approval from the Sponsor

Note 15 – Sponsor (Continued)

- Failed to modify community school contract
- Failed to remediate concerns listed above within 5 days of receipt of Notice of Intent to Suspend

Note 16– Management's Plan

At June 30, 2006, the Academy had an unrestricted deficit ($240,230), operating loss ($301,004), and a net loss ($258,222). As further discussed in Note 14, the Academy had a payable of $146,981 to Mosacia Education.

For the period July 1, 2006 to September 30, 2006, the Academy had an operating income of $6,392 and net asset deficit ($236,169). The Academy had a payable to Mosacia in the amount of $171,184.

The Academy had no management plan in place for fiscal year ended June 30, 2006. Projected revenues and expenditures for fiscal year ended 2007 indicate these financial difficulties will not be eliminated during 2007 but may be eliminated in fiscal year 2008. For fiscal year 2008, it is management's plan to lease a larger facility in order to expand enrollment. In addition, it is Mosacia Education, Inc's intent to forgive the Academy of debt equivalent to amount of outstanding invoices.

Note 17 – Subsequent Events

On September 20, 2007, the Sponsor gave the Academy permission to resume operations. The Academy resumed classes on September 24, 2007.

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

Cornerstone Academy
Franklin County
6023 East Walnut Street
Westerville, Ohio 43081

To the Board of Directors:

We have audited the financial statements of Cornerstone Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2006 and for period July 1, 2006 through September 30, 2006, and have issued our report thereon dated February 8, 2008, wherein we noted the Academy was suspended and granted permission to re-open by their Sponsor. We also noted the Academy is experiencing certain financial difficulties. 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2006-001 listed above to be a material weakness.

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www.auditor.state.oh.us

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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-002.

In a separate letter to the Academy's management dated February 8, 2008, we reported other matter related to noncompliance we deemed immaterial.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 8, 2008

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006 AND
PERIOD JULY 1, 2006 TO SEPTEMBER 30, 2006

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

FINDING NUMBER 2006-001

GAAP Financial Statement Preparation and Reporting—Reportable Condition/Material Weakness

Financial statements prepared using generally accepted accounting principles (GAAP) enhance the decision making capabilities of elected officials and department managers charged with the operations of the Academy, and others with regulatory interests in the results of operations and available resources of the Academy. GAAP basis financial statements provide financial statement users with an accurate financial picture of the Academy's results of operations and available resources by including accrued assets, liabilities, revenues and expenses.

However, financial information becomes less valuable with the passage of time. This is primarily because accrued revenues and expenditures become realized. Those relying upon the Academy's financial statements may draw different conclusions if GAAP basis financial statements are not completed in a timely and accurate fashion. Inaccurate and untimely financial statements could possibly lead to decision-making which is not in the best interests of the Academy.

The Ohio Administrative Code requires financial statements be completed within 150 days of the fiscal year end. On March 21, 2007, the Academy received an Unauditable Letter in regards to their financial statements not being completed by the required date.

The Academy did not prepare a complete set of GAAP basis basic financial statements, Management Discussion and Analysis, and related footnotes until June 6, 2007, more than eleven months after the year ending June 30, 2006. Furthermore, as a result of applying auditing procedures, the financial statements required 20 audit adjustments to be compliant with GAAP. Additionally the Management's Discussion and Analysis, financial statements, and the related footnotes contained several errors.

To enhance financial accountability and decision making by the Academy's administration, the Board of Directors, and the citizens served by the Academy, we recommend the Academy prepare its GAAP basis basic financial statements in an accurate and timely fashion as required by the Ohio Administrative Code. We also recommend the Academy implement policies and procedures for the completion and review of the financial statements, including Management's Discussion and Analysis and related footnotes, to detect errors and potential modifications that may be necessary before submitting the financial statements.

Official's Response:

Management has implemented procedures to ensure that GAAP basis basic financial statements with footnote disclosures and the Management Discussion and Analysis are prepared and submitted to the Auditor of State within the required 150 day time requirement. It is important to note that regular monthly budget to actual reports showing account level detail, vendor payment reports and bank reconciliations were presented to the Board for their consideration and review each Board meeting.

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006 AND
PERIOD JULY 1, 2006 TO SEPTEMBER 30, 2006
(Continued)

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-001 (Continued)

GAAP Financial Statement Preparation and Reporting—Reportable Condition/Material Weakness (Continued)

Official's Response: (Continued)

Management has reviewed the 20 adjustments required by the auditors and noted the following: 12 of the entries didn't impact fund balance or statement of net asset subtotals, but rather reflected a change by the Auditor of State in how they wanted to show personnel costs of the Academy reported as purchased services rather than salaries & benefits or moved dollars within a subtotaled section of the statement of net assets; 2 entries were to separate out current vs long-term portion of debt; 1 entry was to reclassify an adjustment to decrease prepaids to show an increase in accounts payable; 3 adjustments recognized unspent federal grant dollars as revenues; 1 adjustment was to recognize as revenue foundation payments that were received between July 2006 and September 2006 despite the fact that the Ohio Department of Education required that those funds be returned; and 1 entry adds management fees at 9/30 that were reversed by the management company as a result of the temporary charter suspension. The total impact of these adjustments were a $1,113.78 reduction in loss for the period ending 6/30/06 and an additional $28,841.61 reduction in loss for the period ending 9/30/06 or a total impact on ending total Net Assets in the amount of $29,955.39. $27,447.92 of the $29,955.39 will be reversed out in the next fiscal year end that gets reported.

FINDING NUMBER 2006-002

Sponsorship Agreement – Material Non-Compliance

Pursuant to the contract entered into between St Aloysius Orphanage (Sponsor) and the Academy, part B (6), in part, states the Academy will be located in Columbus, Ohio area at a site to be determined by the Governing Board………The location will not be changed and the number of square feet used will not be altered without the prior written consent of the Sponsor which will not be unreasonably withheld. Once the location has been determined and the lease executed, the Sponsor shall be immediately notified.

Furthermore, part B (7), in part, states the School shall be authorized to provide learning opportunities for grades K through 12 to a minimum of twenty-five (25) students for a minimum of 920 hours per school year.

Pursuant to the September 11, 2006 Notice of Suspension of Operation, the Sponsor suspended the Academy's operations based for the following reasons:

- The Academy has accumulated significant debt and does not have a plan to remediate
- Failure to enroll a minim number of students
- Failure to complete Assurances site visit prior to opening
- Modified enrollment demographics without approval from the Sponsor
- Changed facility location without approval from Sponsor
- Failure to modify Community School contract
- Failure to remediate concerns listed above with 5 days of receipt of Notice of Intent to Suspend.

We recommend the Board of Directors implement procedures and policies that require the Academy to adhere to their obligations outlined in the Sponsorship agreement.

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006 AND
PERIOD JULY 1, 2006 TO SEPTEMBER 30, 2006
(Continued)

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-002 (Continued)

Sponsorship Agreement – Material Non-Compliance (Continued)

Official's Response:

During the spring of 2006, management and the Board attempted to secure a different location for the Academy to operate during the 2006-07 school year, but were ultimately unsuccessful. The Board and its management recruited enrollment over the spring and summer of 2006 for reopening at the existing site, but as the starting date for the Academy arrived, enrollment was still at an unsustainable level. The Board, its Sponsor and management collectively came to the conclusion that the Academy was not growing in the location it was using despite efforts during 2005-06 to enhance the programming offered by the Academy. Upon reaching that conclusion amongst the parties involved, the Board closed the site and parents re-enrolled at other sites in order to stop the losses. The Board then worked with its Sponsor to implement a charter suspension rather than a closing in order to give additional time to identify an alternate site that could be developed into an environment that would be more conducive to providing a balanced education for students the Academy serves into the future after the suspension was lifted in the fall of 2007.

Mary Taylor, CPA
Auditor of State

CORNERSTONE 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 1, 2008

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