



**Auditor of State
Betty Montgomery**

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Cornerstone Academy
Franklin County
61 East Mound Street
Columbus, Ohio 43215

To the Board of Trustees:

We have audited the accompanying basic financial statements of the primary government of the Cornerstone Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the primary government of the Cornerstone Academy, Franklin County, Ohio, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the Academy's legal entity. The financial statements do not include financial data for the Academy's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the Cornerstone Academy, Franklin County, Ohio, as of June 30, 2004, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position for the primary government of the Cornerstone Academy, Franklin County, Ohio, as of June 30, 2004, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2005, on our consideration of the primary government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 Government Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of 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 1, 2005

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the financial performance of the Cornerstone Academy, provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key Financial Highlights for the Academy would normally reflect the increase/decrease in total net assets and operating revenues and expenses from year to year. However, for fiscal year 2003, financial information for the Academy does include information related to the Preschool and fiscal year 2004 does not. As such, we believe the years are not comparable and comparative financial statements for the change in net assets will not be presented. However, net assets are comparable because revenues and expenses for the Preschool in 2003 were essentially the same.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the Cornerstone Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Reporting the Academy as a Whole

The view of the School as a whole looks at all financial transactions and asks, "How did we do financially during 2004?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and change in those asset. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

FINANCIAL ANALYSIS

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 government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

Table 1 provides a summary of the Academy's net assets for fiscal years 2004 and 2003.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

**Table 1
Net Assets**

	<u>2004</u>	<u>2003</u>
Assets:		
Current Assets	\$ 23,804	\$24,437
Liabilities:		
Current Liabilities	35,719	<u>49,571</u>
Long-Term Liabilities	<u>814</u>	<u>0</u>
Total Liabilities	<u>\$ 36,533</u>	<u>\$49,571</u>
Net Assets:		
Restricted for Other Purposes	\$ 7,033	\$ 0
Unrestricted	<u>(19,762)</u>	<u>(25,134)</u>
Total Net Assets	<u>\$ (12,729)</u>	<u>\$ (25,134)</u>

While cash and cash equivalents decreased by \$21,429 due to the Academy being current on bills at June 30, 2004, total receivables increased by \$20,796 due to the Academy receiving reimbursement for federal and state grant expenditures. As a result, total assets decreased by \$633. The Academy's unrestricted net assets increased by \$5,372 due to donations from various businesses.

Table 2 shows the changes in net assets for fiscal year 2004:

**Table 2
Change in Net Assets**

	<u>2004</u>
Operating Revenues:	
Foundation Payments	\$331,376
Donations & Other Revenue	<u>74,357</u>
Total Revenue	<u>405,733</u>
Operating Expenses:	
Salaries	198,802
Fringe Benefits	74,721
Purchased Services	131,680
Materials and Supplies	4,365
Other Operating Expenses	<u>21,665</u>
Total Expenses	<u>431,233</u>
Operating Loss	<u>(25,500)</u>
Non-Operating Revenues:	
Federal Subsidies	32,735
State Subsidies	5,045
Interest Earnings	<u>125</u>
Total Non-Operating Revenues	<u>37,905</u>
Increase in Net Assets	<u>\$ 12,405</u>

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

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 2004 operations indicate an increase in net assets of \$12,405 and corresponding ending net assets of \$(12,729).

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

The dependence upon state foundation revenues for operating activities is apparent. Foundation revenues represented 82% of the Academy's operating revenue, while Salaries and Fringe Benefits comprise 63 percent of operating expenses.

Fiscal year 2003 information includes the financial activity of the Cornerstone Preschool, however, the Preschool was incorporated on July 1, 2003 and became a separate legal entity. Although the Preschool is considered a component unit of the Academy, the Academy has chosen not to include the financial activity of the Preschool on their basic financial statements for 2004.

BUDGET

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Community School's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Trustees. Fiscal year 2004 revenues and expenses did not vary significantly from corresponding projections included on the five-year projection. A combination of improving enrollment and careful analysis of expenditures enabled projections for 2004 to be accurate.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Academy has no capital assets and has not issued any debt.

OTHER INFORMATION

Management is currently unaware of any known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations. The Academy is looking into options on reducing expenses and increasing overall revenue and as a result has established a Financial Resource Development Committee whose objective is to raise additional funds for operations in the 2005 and beyond school years.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 3,008
Receivables:	
Accounts Receivable	6,705
Intergovernmental Receivable	14,091
	<hr/>
<i>Total Assets</i>	<i>23,804</i>
	<hr/>

Liabilities:

Current Liabilities:

Accounts Payable	11,893
Accrued Wages and Benefits	16,571
State Pensions Payable	2,321
Compensated Absences Payable	4,934
	<hr/>
Total Current Liabilities	35,719
	<hr/>

Long-Term Liabilities:

Compensated Absences Payable	814
	<hr/>
<i>Total Liabilities</i>	<i>36,533</i>
	<hr/>

Net Assets

Restricted for Other Purposes	7,033
Unrestricted	(19,762)
	<hr/>
<i>Total Net Assets</i>	<i>\$ (12,729)</i>
	<hr/>

See accompanying notes to the basic financial statements

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

Operating Revenues	
Foundation Payments	\$ 259,339
Disadvantaged Pupil Impact Aid	72,037
Other Operating Revenues	74,357
	<hr/>
<i>Total Operating Revenues</i>	405,733
	<hr/>
Operating Expenses	
Salaries	198,802
Fringe Benefits	74,721
Purchased Services	131,680
Materials and Supplies	4,365
Other Operating Expenses	21,665
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<i>Total Operating Expenses</i>	431,233
	<hr/>
<i>Operating Loss</i>	(25,500)
	<hr/>
Non-Operating Revenues	
Interest Earnings	125
State Restricted Grants	5,045
Federal Restricted Grants	32,735
	<hr/>
<i>Total Non-Operating Revenues</i>	37,905
	<hr/>
<i>Change in Net Assets</i>	12,405
	<hr/>
<i>Net Assets Beginning of Year</i>	(25,134)
	<hr/>
<i>Net Assets End of Year</i>	\$ (12,729)
	<hr/> <hr/>

See accompanying notes to the basic financial statements

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 329,857
Cash Received from Fees and Other Sources	67,652
Cash Payments to Suppliers for Goods and Services	(172,275)
Cash Payments to Employees for Services	(204,078)
Cash Payments for Employee Benefits	<u>(67,918)</u>

Net Cash Used for Operating Activities (46,762)

Cash Flows from Noncapital Financing Activities:

Federal and State Restricted Grants 25,208

Cash Flows from Investing Activities:

Interest on Investments 125

Net Decrease in Cash and Cash Equivalents (21,429)

Cash and Cash Equivalents at Beginning of Year 24,437

Cash and Cash Equivalents at End of Year \$ 3,008

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss \$ (25,500)

Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Changes in Assets and Liabilities	
Increase in Accounts Receivable	(6,705)
Increase in Intergovernmental Receivable	(1,519)
Decrease in Accounts Payable	(12,783)
Decrease in Accrued Wages & Benefits	(6,003)
Increase in Compensated Absences Payable	<u>5,748</u>

Total Adjustments (21,262)

Net Cash Used for Operating Activities \$ (46,762)

See accompanying notes to the basic financial statements

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Cornerstone Academy Community School (the "Academy") is a non-profit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to focus on instruction of school children, grades K, 1, and 2. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

The Academy was approved for operation on February 11, 2000 under a contract by and between the Ohio State Board of Education and the Board of Trustees of the Cornerstone Academy Community School. The Academy commenced official operation on July 1, 2000. The five-member Board of Trustees is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy's staff of one director (principal), one secretary, and four full time certificated teachers who provide services to 50 students.

The primary government of the Academy consists of all funds and departments that comprise the legal entity of the Academy. The Academy's financials statements should also reflect the activity of Cornerstone Preschool since it has been determined that the Preschool is a component unit of the Academy, however the Academy has chose not to show the activity of the Preschool on the financial statements. Although the Preschool was incorporated on July 1, 2003 as a legal and separate entity, (previously it was part of the primary government) the Preschool is still considered a component unit of the Academy because the Board of the Academy makes up 100% of the Board of the Preschool and can impose their will, either through the various mechanism of imposition of will or by simply being 100% of the Preschool's Board. The Preschool made payments to the Academy for use of building and facilities, utilities, parking, and insurance in the amount totaling \$42,313 for fiscal year 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 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 pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the School's accounting policies.

A. Basis of Presentation

Enterprise Accounting

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.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

Enterprise Accounting (Continued)

The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

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. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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. Expenses are recognized at the time they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and the Ohio State Board of Education does not prescribe a budgetary process for the Academy.

D. Cash and Investments

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. All monies received by the Academy are pooled and deposited in a central bank account. All monies of the Academy are maintained in this account or temporarily used to purchase short-term investments.

For presentation on the financial statements investments with a maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments (Continued)

During the year ended 2004, investments were limited to repurchase agreements. Repurchase agreements are reported at cost.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Improvements are capitalized, the cost 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.

Capital assets are depreciated using the straight line method over the assets' estimated useful lives. Improvements to capital assets are depreciated over the remaining useful live of the related capital assets.

At June 30, 2004, the Academy does not possess any capital assets that meet the policy; therefore, capital assets are not reflected on the financial statements.

G. 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 accompany notes. Actual results may differ from those estimates.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy presently has restricted net assets totaling \$7,033.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Operating Revenues and Expenses

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

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by the Academy and an expense is recorded when used. The Academy has no prepaid items at June 30, 2004.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year ended June 30, 2004.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means. The Academy records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are not recorded as a liability as it is the policy of the Academy not to pay sick leave, upon separation of services.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: The carrying value of the Academy's deposits totaled (\$7,257), and the bank balance totaled \$13,000, all of which was covered by the Federal Depository Insurance Corporation.

Investments: The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at the fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterpartys trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Investments of the Academy as of June 30, 2004 were as follows:

<u>Investments</u>	<u>Category 3</u>	<u>Fair Value</u>
Repurchase Agreement	\$10,265	\$10,265

The Academy's agent holds securities collateralizing repurchase agreements.

4. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental receivables arising from charges for use of building and facilities for the Preschool, grants, and FTE funding. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

<u>Accounts Receivable</u>	<u>Amount</u>
Accounts Receivable	\$ 6,705
 <u>Intergovernmental Receivable</u>	
Foundation Payments (FTE Funding)	1,519
Title I – FY 2004	8,524
Title II-A – FY 2004	1,250
Title II-D – FY 2004	539
Title IV-A – FY 2004	255
Title V – FY 2004	494
Part B-Idea – FY 2004	735
Student Intervention – FY 2004	<u>775</u>
 Total Intergovernmental Receivable	 <u>14,091</u>
 Total Receivables	 <u>\$20,796</u>

5. 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 2004, 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 \$3,000,000 aggregate and \$1,000 deductible.

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.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

5. RISK MANAGEMENT (Continued)

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.

6. 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. 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 State Statute 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, or by calling (614) 222-5853.

For the fiscal year ended June 30, 2004 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 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The Academy's required contributions to SERS for the years ended June 30, 2004, 2003, and 2002 was \$14,085, \$17,469, and \$11,754 respectively; 100 percent has been contributed for fiscal year 2004.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teacher's Retirement Board. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to State Teachers Retirement System, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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 times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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. 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 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, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries and the Academy is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, 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 for the fiscal years ended June 30, 2004, 2003, and 2002 were \$32,546, \$36,237, and \$26,162 respectively. The Academy has contributed \$30,225 for fiscal year 2004 and the remainder has been recorded as a payable.

7. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through the 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 STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis. All STRS benefit recipients and sponsored dependents are eligible for health care coverage.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

The STRS 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the State Teachers Retirement Board allocated employer contribution equal to 1 percent of covered payroll to the Health Care Reserve fund. For the Academy, this amount equaled \$2,501.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their health care premium. Effective January 1, 2004 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$7,608.

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 annual health care expenses. Expenses for health care at June 30, 2004 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.

8. LONG-TERM OBLIGATIONS

Changes in the Academy's long-term obligations during fiscal year 2004 were as follows:

	Balance at 7/01/03	Additions	Deletions	Balance at 6/30/04
Compensated Absences	\$ -	\$ 814	\$ -	\$ 814

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (MEC) MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to the Academy in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The Academy does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provided computer services in the amount of \$7,454 to the Academy for fiscal year 2004.

10. CONTINGENCIES

A. Grants

The Academy receives 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, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State Law. 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 is set for oral arguments on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. 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 the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in the state funding being adjusted. The review resulted in the discovery of an underpayment to the Academy in the amount on \$1,519. This amount was reflected on the financial statements as an intergovernmental receivable.

D. Accountability

For fiscal year 2004, the Academy had an operating loss (\$25,500) and total net assets of (\$12,729). The financial statements reflect an operating loss and negative net assets due to the GAAP conversion. The Academy's cash financial statements had a positive fund balance at June 30, 2004.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

11. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

12. PURCHASED SERVICES EXPENSES

For fiscal year ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Children's Center for Development Enrichment	\$ 24,000
Saint Johns Church (Rent)	40,000
Consulting	23,180
Advertisement	2,149
Utilities	10,341
Metropolitan Educational Center	7,454
Other Purchased Services	<u>24,556</u>
Total Purchased Services	<u>\$ 131,680</u>

13. TAX EXEMPT STATUS

The Academy completed their application and filed 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 is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

14. OPERATING LEASE

The Academy entered into an operating lease agreement for use of property. The premises shall be used for an educational program for children. The lease commenced August 21, 2000, and shall terminate on August 21, 2005. The Board will at that time determine renewal of the lease. The monthly charge for rental is \$3,333 payable the first of each month. The Academy is responsible for the interior maintenance and repairs, utilities, redecorating, inspections, insurance, and damages to the premises.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Cornerstone Academy
Franklin County
61 East Mound Street
Columbus, Ohio 43215

To the Board of Trustees:

We have audited the basic financial statements of the primary government of the Cornerstone Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which 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 such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated March 1, 2005.

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www.auditor.state.oh.us

This report is intended for the information and use of the audit committee, management, and the Board of Trustees, and is not intended to be and should not be used by 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 1, 2005



**Auditor of State
Betty Montgomery**

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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
APRIL 7, 2005**