



**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets.....	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	13
Federal Awards Receipts and Expenditures Schedule.....	25
Notes to the Federal Awards Receipts and Expenditures Schedule	26
Independent Accountants' Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	27
Independent Accountants' Report On Compliance With Requirements Applicable Each Major Federal Program and On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	29
Schedule of Findings and Questioned Costs	31
Schedule of Prior Audit Findings.....	45

THIS PAGE INTENTIONALLY LEFT BLANK



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Columbus Preparatory Academy, Franklin County, Ohio, (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Columbus Preparatory Academy, Franklin County, Ohio, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 to the financial statements, the Academy has a deficit net asset balance of (\$1,725,153) and operating loss (\$673,945) and experienced certain financial difficulties during the year. Note 19 describes management's plans regarding these issues.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information 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.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The federal awards receipts and expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards receipts and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 13, 2008

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
UNAUDITED*

The discussion and analysis of the Columbus Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. 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 third year of operation during fiscal year 2007 serving grades kindergarten through seventh grade. Enrollment varied during the year but averaged 487 students.

Key highlights for fiscal year 2007 are as follows:

- Net assets decreased \$284,047 as compared to \$483,146 in the prior fiscal year.
- The Academy had an operating loss of \$673,945 as compared to an operating loss of \$957,401 in the prior fiscal year.
- Total assets decreased \$96,039, or 23.23 percent, primarily due to a \$51,057 decrease in intergovernmental receivable, a \$2,474 decrease in prepaid items and a decrease in capital assets of \$37,791.
- Total liabilities increased \$188,007, or 10.14 percent, due to a \$192,778 increase in accounts payable, \$69,606 increase in accrued interest payable. The increase was offset by a \$74,376 decrease in long term debt.

Overview of the Financial Statements

The financial report consists of three parts the 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 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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets for 2007 compared to 2006:

Table 1
Net Assets

	2007	2006	Change
<u>Assets:</u>			
Current Assets	\$216,061	\$274,309	(\$58,248)
Capital Assets	101,299	139,090	(37,791)
Total Assets	<u>317,360</u>	<u>413,399</u>	<u>(96,039)</u>
<u>Liabilities:</u>			
Current Liabilities	1,577,513	1,219,294	358,219
Long-Term Liabilities	465,000	635,211	(170,211)
Total Liabilities	<u>2,042,513</u>	<u>1,854,505</u>	<u>188,008</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	89,070	52,484	36,586
Restricted for Other Purposes	12,689	86,573	(73,884)
Unrestricted	(1,826,912)	(1,580,163)	(246,749)
Total Net Assets	<u>(\$1,725,153)</u>	<u>(\$1,441,106)</u>	<u>(\$284,047)</u>

Total net assets decreased \$284,047. The cause of the decrease was the Board's desire to continue to offer programming that would be attractive to the families of the area and to offer services and student staff ratios necessary to accelerate learning of students faster than the traditional single grade level gains. The goal of this investment is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. The Academy made significant progress towards operating at breakeven during the 2007 fiscal year. With enrollment having grown to 551 in fall of 2007 for the 2008 fiscal year, we are projecting that the school will be able to move past a breakeven position and begin recovering the accumulated deficits. Based on the analysis that was done at the time the decision was made to open the school, the Board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. The Academy is experiencing the growth anticipated and we believe is on track to begin recovering from the investment that was made in the first three years of operations to make this school what it has become today. Resources for the necessary program became available by taking out a long term note from the Academy's management company in December of 2005 and delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and personnel services.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2007 as compared to 2006.

Table 2
Change in Net Assets

	2007	2006	Change
<u>Operating Revenues:</u>			
Foundation	\$3,024,992	\$2,200,071	\$824,921
Charges for Services	93,020	118,609	(25,589)
Other Operating Receipts	95	15,442	(15,347)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	523,731	554,971	(31,240)
Total Revenues	\$3,641,838	\$2,889,093	\$752,745
<u>Operating Expenses:</u>			
Building	\$891,721	\$722,652	169,069
Purchased Services	2,590,648	2,205,177	385,471
Depreciation	38,470	29,021	9,449
General Supplies	242,630	95,684	146,946
Other Operating Expense	28,583	238,989	(210,406)
<u>Non-Operating Expenses:</u>			
Interest	133,833	80,716	53,117
Total Expenses	\$3,925,885	\$3,372,239	\$553,646
Total Increase (Decrease) in Net Assets	(\$284,047)	(\$483,146)	\$199,099

Fiscal year 2007 showed an increase in revenues and expenses which is primarily due to an increase in the number of students from 348 in fiscal year 2006 to 487 in fiscal year 2007 served by the Academy.

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, Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the Academy had \$101,299 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of \$37,791 or 27.17 percent. The following table shows fiscal year 2007 compared to 2006:

Capital Assets at June 30 (Net of Depreciation)

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Furniture & Equipment	\$101,299	\$139,090	(\$37,791)

The decrease primarily represents the depreciation expense for the year on the computer equipment. The Academy added approximately \$679 of assets in fiscal year 2007. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2007, the Academy had \$775,860 in notes and capital leases outstanding, \$310,860 due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2007.

Outstanding Debt, at Year End

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Capital Leases Payable	\$12,229	\$86,605	(\$74,376)
Mosaica Education Promissionary Note	763,631	763,631	0
Total	<u>\$775,860</u>	<u>\$850,236</u>	<u>(\$74,376)</u>

For further information regarding the Academy's debt, refer to Note 13 to the basic financial statements.

Economic Factors

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)*

Operations

Columbus Preparatory Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades K-7. Grade 8 is being added in the 2007-2008 academic year. 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.

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 question concerning this report, please contact Michael Troper, Controller of the Columbus Preparatory Academy, 3330 Chippewa Street, Columbus, Ohio 43204.

THIS PAGE INTENTIONALLY LEFT BLANK

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 75,063
Intergovernmental Receivable	131,989
Prepaid Expense	<u>9,009</u>
Total current assets	<u>216,061</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	<u>101,299</u>
---	----------------

Total assets	<u>\$ 317,360</u>
---------------------	--------------------------

Liabilities:

Current liabilities:

Accounts Payable, Trade	\$ 125,317
Accounts Payable, Related Party	1,032,518
Accrued Interest	108,818
Current Portion of Long-term Debt	<u>310,860</u>
Total current liabilities	<u>1,577,513</u>

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt	<u>465,000</u>
--------------------------------------	----------------

Total liabilities	<u>2,042,513</u>
--------------------------	-------------------------

Net Assets

Invested in Capital Assets, Net of Related Debt	89,070
Restricted for Other Purposes	12,689
Unrestricted Net Assets	<u>(1,826,912)</u>
Total Net Assets	<u>\$(1,725,153)</u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Operating Revenues:	
Community School Foundation	\$ 3,024,992
Charge for Services	93,020
Miscellaneous	95
Total Operating Revenues	<u>3,118,107</u>
Operating Expenses:	
Building	891,721
Purchased Services	2,590,648
Depreciation	38,470
General Supplies	242,630
Other Operating Expenses	28,583
Total Operating Expenses	<u>3,792,052</u>
Operating Loss	<u>(673,945)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	523,731
Interest Expense	(133,833)
Net Nonoperating Revenues and Expenses	<u>389,898</u>
Change in Net Assets	(284,047)
Net Assets Beginning of Year	<u>(1,441,106)</u>
Net Assets End of Year	<u><u>\$(1,725,153)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 2,858,930
Charge for Services	93,020
Other Operating Receipts	95
Cash Payments to Suppliers for Goods and Services	<u>(3,392,268)</u>
Net Cash Used for Operating Activities	<u>(440,223)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and State Grant Receipts	<u>574,788</u>
Net Cash Provided by Noncapital Financing Activities	<u>574,788</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Assets	(679)
Capital Lease Interest Payments	(64,227)
Capital Lease Principal Retirement	<u>(74,376)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(139,282)</u>

Net Decrease in Cash and Cash Equivalents	(4,717)
Cash and Cash Equivalents - Beginning of the Year	<u>79,780</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 75,063</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	<u>\$ (673,945)</u>
----------------	---------------------

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

Depreciation	38,470
Changes in assets and liabilities:	
Decrease in Prepaid Expense	2,474
Decrease in Accounts Payable, Trade	(194,119)
Increase in Accounts Payable, Related Party	<u>386,897</u>
Net Cash Used for Operating Activities	<u><u>\$ (440,223)</u></u>

Noncash operating activities

The Academy's management company paid \$386,897 for operating expenses on behalf of the Academy.

See Accompanying Notes to the Basic Financial Statements

THIS PAGE INTENTIONALLY LEFT BLANK

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

Note 1 - Description of the School

The Columbus Preparatory Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades K-7. 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 a contract with the Ohio Council of Community Schools (the Sponsor) for a period of four academic years commencing after July 1, 2004 and ending June 30, 2008. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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 carrying 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's Governing Board also serves as the Board for the Columbus Arts and Technology Academy, the Columbus Humanities Arts and Technology Academy, and Cornerstone Academy.

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 17.

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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

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 Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2007.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2007, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2007 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. 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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

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

<u>Description</u>	<u>Useful Lives</u>
Furniture and Equipment	5-20 years

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 Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2007, there were no net assets restricted by enabling legislation.

The statement of net assets reports \$12,689 in restricted net assets related to various entitlement grant receipts in excess of funds expended and \$89,070 invested in capital assets net of related debt.

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Economic Dependency

The Academy receives approximately 97% 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

There were no changes in accounting principals implemented during 2007 that would have a material effect on the financial statements.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

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, 2007 the bank balance of Academy's deposits was \$106,568. Of the bank balance, \$100,000 was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investments Risk Disclosures", \$6,568 was uninsured and uncollateralized.

Note 5 – Receivables

At June 30, 2007, the Academy had intergovernmental receivables, in the amount of \$131,989. The receivables are expected to be collected within one year.

Grant	Amount
National School Lunch Program	\$27,632
Title I	71,060
Title IV	689
IDEA A	10,652
Federal School Public Grant	21,956
Total Intergovernmental Receivables	\$131,989

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Furniture & Equipment	\$192,350	679	0	\$193,029
Less Accumulated Depreciation	(53,260)	(38,470)	0	(91,730)
Capital Assets, Net	\$139,090	(\$37,791)	\$0	\$101,299

Note 7 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the Academy contracted with Pashley Insurance Agency to obtain insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

Note 7 - Risk Management

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	8,000,000
Aggregate Limit	8,000,000
Excess/Umbrella Liability:	
Building&BPP	7,081,000

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

Note 8 – Purchased Services

For the period July 1, 2006 through June 30, 2007, purchased service expenses were as follows:

Service	Amount
Personnel	\$1,255,936
Taxes and Benefits Related to Personnel Costs	334,175
Building/Custodial	160,957
Auditing Fees	10,062
Food Service	160,420
Legal Fees	5,262
Management Fee	453,677
Special Education/Nursing	91,953
Sponsor Fee	74,277
Temporary Services	18,052
Training	6,027
Advertising	18,841
Pupil Transportation	1,009
Total	\$2,590,648

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

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 system considers the Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School 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.

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 2007, 10.68 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 years ended June 30, 2007, 2006 and 2005 were \$28,667, \$27,050 and \$12,453 respectively; 87 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System of Ohio

The Academy 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. 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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System of Ohio (Continued)

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, 2007, 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 2006, 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 years ended June 30, 2007, 2006 and 2005, were \$119,645, \$112,186 and \$60,695, respectively; 88 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. No employees contribute to the DCP and CP for the fiscal year ended June 30, 2007.

Note 10 – Postemployment Benefits

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, 2007, 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 \$10,259 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All 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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

Note 10 – Postemployment Benefits (Continued)

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 and 3.43 percent of covered payroll for fiscal years 2006 and 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 2007, 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 2007 fiscal year equaled \$8,911.

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, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 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, 2007.

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 in October 2004. The suit alleges that the funding provisions of the Ohio Community School Act, O.R.C. Section 3314, violate both the Ohio and Federal constitution. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

The Academy is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operation and pending projects. The Academy management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the Academy.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy owed the Ohio Department of Education \$141.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

Note 12 – Building Leases

The Academy has entered into a lease for the period from July 1, 2004 through June 30, 2019 with EFA Company, LLC a wholly owned subsidiary of Mosaica Education, Inc. for the use of the main building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 17. Payments made totaled \$891,721 for the fiscal year. Under the lease agreement, the Academy is responsible for paying all utilities, maintenance and repairs, and applicable property taxes.

The following is a schedule of the future minimum payments required under the operating as of June 30, 2007:

Fiscal Year Ending June 30	Amount
2008	\$630,000
2009	645,750
2010	661,500
2011	678,036
2012	694,572
2013	711,936
2014	729,301
2015	747,533
2016	765,766
2017	784,910
2018	804,054
2019	402,027
Total minimum lease payments	\$8,255,385

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2007 were as follows:

	Balance 6/30/2006	Additions	Reductions	Balance 6/30/2007	Amount Due Within One Year
Mosaica Education, Inc. Promissory Note	\$763,631	\$0	\$0	\$763,631	\$298,631
Capital Leases Payable	86,605	0	(74,376)	12,229	12,229
Long-Term Obligations	\$850,236	\$0	(74,376)	\$775,860	\$310,860

Mosaica Education, Inc. Promissory Note- On December 7, 2005, the Academy entered into a promissory note with Mosaica Education, Inc for the some outstanding accounts payables. The promissory note has an interest rate of 9.0 percent and will mature in fiscal year 2010. During fiscal year 2007 the Academy did not make payments to Mosaica Education, Inc. as outlined in the payment section of the promissory note agreement.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

Note 13 – Long-Term Obligations (Continued)

The principal and interest requirements to retire the promissory note with Mosaica Education, Inc. outstanding at June 30, 2007, were as follows:

Promissory Note		
Fiscal Year Ending June 30	Principal	Interest
2008	\$298,631	\$43,067
2009	155,000	43,012
2010	155,000	56,963
2011	155,000	70,912
Total	\$763,631	\$213,954

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into capitalized leases for the use of computer equipment and for the use of telephone and surveillance equipment. Each lease meets the criteria of capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. Principal payments in 2007 were \$74,376.

	Amount
Furniture and Equipment	\$192,350
Less Accumulated Depreciation	(91,730)
Total June 30, 2007	\$100,620

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2007.

Capital Lease		
Fiscal Year Ending June 30	Principal	Interest
2008	\$12,229	\$455

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

Note 15 – Operating Leases

In August of 2004, the Academy entered into an operating lease for three years with American Industrial Leasing, Inc, for the use of classroom furnishings. Total lease payments during fiscal year 2007 for this lease were \$22,181. Estimated minimum lease payments still owed on the operating lease is \$9,068.

Note 16 –Tax Exempt Status.

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

Note 17 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2007 was \$453,677.

Also, per the management agreement there are expenses that will be billed to the academy based on the actual cost 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 administration services. The total expenses paid to Mosaica Education Inc during fiscal year 2007 were \$2,296,606.

At June 30, 2007, the Academy had payables to Mosaica Education, Inc. in the amount of \$1,032,518. The following is a schedule of payables owed to Mosaica Education, Inc.

	<u>Amount</u>
Payroll	\$426,192
Management Fee	87,485
Building Rent	108,150
Real Estate Taxes	365,923
Finance Charges	44,337
Miscellaneous	431
Total June 30, 2007	<u><u>\$1,032,518</u></u>

In addition, at June 30, 2007 the Academy owed Mosaica Education, Inc \$763,631 for a promissory note agreement dated December 7, 2005. See Note 13.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

Note 18 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools Council (the Sponsor) for a period of four academic years commencing July 1, 2004. As part of this contract, the Sponsor is entitled to a maximum of 3% of all revenues. Total amount due and paid for fiscal year 2007 was \$74,277.

Note 19 – Management’s Plan

For fiscal year 2007, the Academy had an operating loss of (\$673,945), change in net assets of (\$284,047), and net asset deficit of (\$1,725,153). Projected revenues and expenses for fiscal year 2008 indicate these financial difficulties will not be completely eliminated during fiscal year 2008. As of January 31, 2008 the Academy’s change in net assets was (\$89,532) and the net asset deficit was (\$1,814,685).

The Academy had a net loss for fiscal year 2007. The net loss in FY 2007 of \$284,047 was less than the net loss in fiscal year 2006 of \$483,146 for the Academy due to a significant increase in enrollment. Final fiscal year 2006 full-time equivalents students was 357 students and final fiscal year 2007 full-time equivalent student enrollment was 487 students. Current full-time equivalents student enrollment as of January of 2008 is 559 students.

Management plans to continue to increase enrollment through active advertising via print, radio, mailings, and through referrals of current parents which will help reduce future deficits and operating losses.

Note 20 – Subsequent Events

Subsequent to year end, the Board has negotiated with its landlord for an expansion of space to be occupied under its lease agreement. Construction began in November to allow for a multipurpose room. Additional classroom spaces are to be made available to the Academy for the 2008-2009 school year. The Academy’s rent will increase in proportion to the landlord’s additional investment.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>United States Department of Agriculture</u> <i>Passed Through Ohio Department of Education</i>				
Nutrition Cluster:				
National School Breakfast Program	000557-05PU-(2006-2007)	10.553	\$ 37,390	\$ 37,390
National School Lunch Program	000557-LLP4-(2006-2007)	10.555	120,610	120,610
Total U.S. Department of Agriculture-Nutrition Cluster			<u>158,000</u>	<u>158,000</u>
<u>United States Department of Education</u> <i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	000557-C1S1-2006	84.010	70,997	49,107
	000557-C1S1-2007		60,037	107,120
<i>Total Title I Grants to Local Educational Agencies</i>			<u>131,034</u>	<u>156,227</u>
Special Education Cluster:				
Special Education Grants to States	000557-6BSF-2007	84.027	58,418	63,140
Special Education - Preschool Grant	000557-PGS1-2007	84.173	1,690	1,904
Total Special Education Cluster			<u>60,108</u>	<u>65,044</u>
Safe and Drug-Free Schools State Grants	000557-DRS1-2006	84.186	1,391	1,546
	000557-DRS1-2007		1,134	-
<i>Total Safe and Drug-Free Schools State Grants</i>			<u>2,525</u>	<u>1,546</u>
State Grants for Innovative Educational Program Sti	000557-C2S1-2007	84.298	517	555
Improving Teacher Quality State Grants	000557-TRS1-2006	84.367	1,552	34
	000557-TRS1-2007		451	-
<i>Total Improving Teacher Quality State Grants</i>			<u>2,003</u>	<u>34</u>
Education Technology State Grants	000557-TJS1-2006	84.318	456	-
	000557-TJS1-2007		87	-
<i>Total Education Technology State Grants</i>			<u>543</u>	<u>-</u>
Public Charter School Grant	000557-CHS1-2006	84.282	78,857	56,801
	000557-CHS1-2007		121,000	117,013
<i>Total Public Charter School Grant</i>			<u>199,857</u>	<u>173,814</u>
Total United States Department of Education			<u>396,587</u>	<u>397,220</u>
TOTAL FEDERAL AWARDS			<u>\$554,587</u>	<u>\$555,220</u>

The accompanying notes are an integral part of this schedule.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the Academy's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the basic financial statements of the Columbus Preparatory Academy, Franklin County, Ohio, (the Academy), as of and for the year ended June 30, 2007, and have issued our report thereon dated February 13, 2008 wherein we noted the Academy had a deficit net asset balance and an operating loss as of June 30, 2007 and experienced certain financial difficulties during the fiscal year. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statement, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more than inconsequential financial statements misstatement.

We consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 2007-004 and 2007-005.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weakness. However, of the significant deficiencies described above, we believe findings 2007-004 and 2007-005 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated February 13, 2008.

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 provision 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2007-001 through 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 13, 2008.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 management, the Board of Directors, the Ohio Council of Community Schools, and federal awarding agencies, and pass through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 13, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

Compliance

We have audited the compliance of Columbus Preparatory Academy (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

As described in items 2007-006 and 2007-008 through 2007-009 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding reporting, activities allowed, allowable cost/cost principles, and eligibility applying to its Title I program. In addition, as describe in items 2007-006 and 2007-007 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding reporting and period of availability applying to its Public Charter School program. Compliance with those requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Columbus Preparatory Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2007. In a separate letter to the Academy's management dated February 13, 2008, we reported other matters related to federal noncompliance not requiring inclusion in this report.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the preceding paragraph and would not necessarily identify all efficiencies in the Academy's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned function, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to administer a federal program such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and question costs as findings 2007-006 through 2007-009 to be significant deficiencies.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the Academy's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider 2007-006 through 2007-009 to be material weaknesses. We also noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported the Academy's management in a letter dated February 13, 2008.

The Academy's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. 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 management, the Board of Directors, the Ohio Council of Community Schools, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 13, 2008

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies—CFDA #84.010 Public Charter School Grant- CFDA # 84.282
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2007-001

Debt Payments In Accordance with Promissory Note Agreement-Noncompliance

The Payment section of the Promissory Note Agreement dated June 30, 2005 between the Academy and Mosaica Education, Inc., the Academy's Management Company, for \$763,631.21 states the "Borrower shall pay this loan as outlined below":

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-001 (Continued)

Debt Payments in Accordance with Promissory Note Agreement-Noncompliance (Continued)

Date	Principal	Interest	Payment
7/31/2006	143,631.21	14,004.04	157,635.25
7/31/2007	155,000.00	29,062.50	184,062.50
7/31/2008	155,000.00	43,012.50	198,012.50
7/31/2009	155,000.00	56,962.50	211,962.50
7/31/2010	155,000.00	70,912.50	225,912.50
	<u>763,631.21</u>	<u>213,954.04</u>	<u>977,585.25</u>

The Academy did not make any payments on the promissory note during fiscal year 2007.

The Academy should pay Mosaica Education, Inc. the debt obligations as outlined and agreed to in the Promissory Note Agreement.

Officials' Response

As cash flow is available, the Academy will make payments on this promissory note. The management company has not demanded payment nor has it charged delinquency penalties.

FINDING NUMBER 2007-002

Governing Authority-Noncompliance

Ohio Revised Code § 3314.02(E) states in part that each community school established under this chapter shall be under the direction of a governing authority which shall consist of a board of not less five individuals and that no person shall serve on the governing authorities of more than two start-up community schools at the same time.

As of June 30, 2007, the Academy only had four individuals participating on the Board of Directors. Not only is the current number of board members insufficient to be compliant with the above Ohio Revised Code requirement, but is also a violation of the Academy's agreement with its sponsor, which also stipulates that the Academy must maintain a five-member governing board. In addition the Academy's Board of Directors also served as the Board of Directors of the Columbus Arts and Technology Academy, the Columbus Humanities Arts and Technology Academy, and the Cornerstone Academy.

We recommend the Academy take steps to secure at least five governing board members that comply with all aspects of Ohio Revised Code § 3314.02 (E) to act as the governing authority for the Academy. By establishing the required five-member board, the Academy can gain assurance that it is in compliance with the Ohio Revised Code and sponsorship agreement requirements.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-002 (Continued)

Officials' Response

The Board has recruited extra members and anticipates having the minimum required throughout the year.

FINDING NUMBER 2007-003

Timely Deposits-Noncompliance

Ohio Revised Code § 9.38 states that a person who is public official other than a state officer, employee or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars.

If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of receipt, unless the public office of which that person is a public official adopt a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public monies until they are deposited.

Deposits were not made on the business day following the day of receipt for all the receipts collected from the food service and after-school programs. Currently, the Academy does not have a policy to document the time frame in which daily collections can be held in a safe until the deposit can be made.

We recommend the Academy deposit all receipts collected by the following business day. The Academy should also consider adopting a policy whereby receipts are deposited less often if the daily receipts are less than one thousand dollars, provided the moneys are properly safeguarded until such time of deposit.

Officials' Response

Management will recommend a policy for deposits to the Board that has site administration deposit all funds at least two times per week. Management is not aware of any receipts that have been held at the Academy for any extended period of time.

FINDING NUMBER 2007-004

Board Monitoring—Significant Deficiency and Material Weakness

Mosaica Education, Inc., the Academy's management company, prepares monthly bank reconciliations and year to date and month to date budget versus actual financial reports that are presented to the Board of Directors. Since the Academy reports on a full accrual basis of accounting throughout the year the revenue and expenditures reported on the budget versus actual reports include receivable and payable amounts outstanding. However, the Board of Directors is not provided a Statement of Net Assets. Therefore, the Board of Directors could not effectively monitor the Academy's assets, liabilities, and net assets throughout the year.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-004 (Continued)

Board Monitoring—Significant Deficiency and Material Weakness (Continued)

In addition, the management agreement entered into with Mosaica Education, Inc. states that the following services would be provided: management of personnel and human resources, board relations, financial management, marketing, the program of instruction, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Currently the Board does not have procedures in place to monitor the services being provided by Mosaica Education, Inc.

Monitoring comprises of regular management activities established to oversee whether management's financial objectives are being achieved. Data from financial reports provided by Mosaica Education, Inc may indirectly provide assurance as to the reliability of financial reporting information if it conforms to the users' expectation. Lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of the Academy's funds.

We recommend that the following items be reviewed and approved by the Board of Directors at the monthly meetings.

1. A Statement of Net Assets that reports the assets, liabilities, and net assets as of the last day of each month.
2. All invoices from Mosaica Education, Inc. and the supporting documentation of the expenses incurred by Mosaica Education, Inc. on behalf of the Academy. Supporting documentation should include payroll reports, the calculation of the management fee charged, rental agreements, and invoices of any other miscellaneous expenses billed to the Academy.

These items should be reviewed by the Board of Directors for any unusual or unexpected financial activity and for discrepancies between the Academy's Management Agreement and the actual services provided and billed by Mosaica Education, Inc. Appropriate follow-up should be made regarding any unusual balances or transactions.

Officials' Response

A statement of net assets will be distributed along with the budget to actual detail financial statements that already is distributed to Board members each month.

Board can review any and all invoices, payroll registers, fees, agreements and contracts at any time. This has been standard practice since the Academy opened. Each month, the Board receives bank reconciliations and a listing of paid bills as part of the financial package. At each Board meeting, the Board asks questions and either approves the financial packet or tables the financial package until sufficient answers and documentation are provided.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-005

Monitoring of Purchased Service Expenses- Significant Deficiency and Material Weakness

The management agreement entered into with Mosaica Education, Inc. states that Mosaica Education, Inc. will manage personnel and human resources for all staff of the Academy and maintain accurate financial records pertaining to the operation of the Academy. In order to ensure accurate record keeping of payroll paid to employees and subsequently billed to the Academy as a purchased service, Mosaica Education, Inc. maintains supporting documentation for all payroll paid to employees.

The following internal control weaknesses were noted during the testing of various payroll transactions billed by Mosaica Education, Inc. to the Academy:

1. The Personnel Action Forms are utilized to document the employee's standing information including but not limited to, the approved pay rate, hours to be worked, and the name of the Academy in which the employee would provide their services to, were not signed by the employee. Therefore, there is no documentation of the employee's agreement to the terms of employment.
2. Hourly employee time sheets were not reviewed and approved by the Chief Administrative Officer of the Academy before the total hours worked were reported for payroll processing.
3. There were five instances in which white out was used to remove hours and other information on the time sheets indicating that time sheets were shared amongst employees when original and unused time sheets were not available.
4. There were four instances in which employee time sheets were not provided to support the hours paid for the pay period.
5. There was one employee that was authorized and paid as a full time Title I instructional aide and a substitute teacher. However, documentation was not maintained to support that the duties of both of these job functions were being fulfilled.

Lack of internal controls over the processing of employee payroll can lead to misappropriation of the Academy's resources for the payment of purchased service expenses that were not actually incurred by the Academy.

We recommend the following internal controls be implemented within the payroll process.

1. All Personnel Action Forms should be signed by the employees and the administrators assigned to oversee the employee's performance.
2. Each hourly employee should complete a timesheet that accurately reflects the hours worked. All timesheets should be reviewed and signed by the Chief Administrative Officer before payroll is processed.
3. For all employees that are assigned to more than one job function for the Academy, time and effort records should be maintained to support the payroll paid related to each job function.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-005 (Continued)

Monitoring of Purchased Services- Significant Deficiency and Material Weakness (Continued)

Officials' Response

While management was under the belief that controls identified below were in place to mitigate the concerns auditors identified in this finding, recommendations for improvements to controls are welcomed and will be implemented where feasible:

1. The Personnel Action Form referred to is not intended to be signed by employee as instructions on the face of the form call for an employee signature if personal information such as name and contact information is being changed. Management issues an offer letter that identifies job title and school assignment for each new hire. The employee signs and returns the offer letter for maintenance in his/her personnel file.
2. Although the Chief Administrative Officer does not review and sign off on each individual time sheet, the administrative assistant does and inputs the time sheet data into a payroll spreadsheet that the Chief Administrative Officer is responsible for approving prior to transmission to the payroll department.
3. The instances noted appear to be isolated instances of necessity because new forms were not available at the moment. Personnel decided it was better to have time records documented, even if reusing forms, than not to have documented time records at all.
4. It is the policy and practice that all timesheets be retained at the school site. Management will review process with administrative personnel to ensure that a thorough understanding of this requirement.
5. Grant funded personnel are responsible for maintaining activity/service logs for duties performed under the grants. Site administration is required to maintain those service logs to document that grant funded personnel are only servicing eligible students.

Management has modified the new hire packet to require signature of the employee on all Personnel Action Forms that are submitted to payroll. Although the majority of Personnel Action forms for 2007-08 will be unsigned as policy was not revised until midyear, going forward, the signatures will be available on all new Personnel Action Forms that are submitted to payroll for processing.

One modification to the second recommendation is that rather than having Chief Administrative Officer sign off on individual time sheets, management will require Chief Administrative Officer to provide positive affirmation that spreadsheets provided to payroll are accurate. Prior to providing that positive affirmation, time being reported will need to have been verified against employee timesheets.

Management has verified that activity logs for grant funded positions are being maintained for 2007-08 fiscal year.

Auditor of State Conclusion:

As recommended signatures on the Personnel Action Forms and the payroll spreadsheets would document the review and validation of payroll information before it is processed.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Title I and Public Charter School-Reporting & Activities Allowed and Allowable Costs/Cost Principles

Finding Number	2007-006
CFDA Title and Number	Public Charter School Grant—CFDA #84.282 Title I Grant to Local Educational Agencies-CFDA #84.010
Federal Award Number / Year	CHS1-2006, CHS1-2007, C1S1-2006, C1S1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness

The Ohio Department of Education (ODE) Federal Fiscal Report Procedures #1, and ODE Superintendent Weekly E-mail, dated December 6, 2002 require the following:

Consolidated Application Assurance item 5 provides that the Academy will report to ODE as may be reasonably necessary to enable ODE to perform its duties.

Program funds are reported to the State of Ohio by the following reports:

- Project Cash Requests
- Final Expenditure Report

The final expenditure report is to be submitted for each project immediately after all financial obligations have been liquidated. The report is due no later than 90 days after the end of the project period. Failure to submit the report in a timely manner may result in a temporary suspension of the flow of federal funds for this grant until the project is closed.

Actual expenditures authorized by the approved project application and changes to the project special cost center are to be reported (report amount actually expended not encumbered).

In addition, the Ohio Department of Education Office of Grants Management Final Expenditure Report Instructions state all amounts reported on the final expenditure report must reconcile to the Academy's accounting system used to prepare annual financial statements.

The Academy uses an accrual basis accounting system. Rather than performing a calculation to determine actual cash basis expenditures, the Academy estimated cash expenditures for each Project Cash Requests submitted for the Title I Grant and the Public Charter School Grant.

The final expenditure report for Title I program included \$11,386 of expense that had not been liquidated as of the date of the final expenditure reports. In addition the amounts reported on the final expenditure report for supplies and capital outlay did not agree to the Academy's accounting system. The actual amount reported in the Academy's ledgers for supplies was \$7,506, but the amount shown on the final expenditure report was \$8,073. The actual amount reported in the Academy's ledgers for capital outlay was \$734, but the amount shown on the final expenditure report was \$11,553.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
--

Title I and Public Charter School-Reporting & Activities Allowed and Allowable Costs/Cost Principles (Continued)

Finding Number	2007-006
CFDA Title and Number	Public Charter School Grant—CFDA #84.282 Title I Grant to Local Educational Agencies-CFDA# 84.010
Federal Award Number / Year	CHS1-2006, CHS1-2007, C1S1-2006, C1S1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness (Continued)

Accordingly, questioned costs are issued in the amount of \$11,386 of the \$156,227 expended of the Title I program during fiscal year 2007.

The Academy should implement procedures that will identify the actual cash basis expenditures of the program that should be reported on the Project Cash Request forms and the Final Expenditure Reports and submitted to the Ohio Department of Education. The Academy should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

Officials' Response and Corrective Action Plan:

The \$11,386 listed by auditors as being unliquidated is the result of a payment being voided shortly after the FER was submitted to ODE because an order with a vendor was cancelled due to timely delivery issues. The financial records submitted to auditors for audit and the financials generated by management reflected the cancellation reduced expense. Management was waiting for audit to be completed in case there were other concerns raised by auditors to contact ODE with regards to instructions for return of funds. Financial records of the Academy currently list the \$11,386 as a liability due back to ODE.

One thing that will help is a midyear review of grant spending to determine areas of grant budgets that are not being utilized that can be reallocated to implement new remedial activities. That review process should minimize the last minute ordering that takes place to ensure grant programs maximize available resources.

Anticipated Completion Date: March 31, 2008
Responsible Contact Person: Michael Troper

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
--

Public Charter School Grant-Period of Availability

Finding Number	2007-007
CFDA Title and Number	Public Charter School Grant—CFDA #84.282
Federal Award Number / Year	CHS1-2006, CHS1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness

34 C.F.R. Section 74.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Secretary. The Ohio Department of Education (ODE) 2006 and 2007 Community School Competitive Application Consolidated Application for the Public Charter School grant defined the available period as July 1, 2005 to June 2006 for the fiscal year 2006 grant and from July 1, 2006 to June 30, 2007 for the fiscal year 2007 grant.

The Academy charged \$33,577 for instructional supplies to the 2006 Public Charter School program and the expense were not incurred by the Academy until after June 30, 2006.

Total questioned costs for expenditures that were outside the period of availability are \$33,577 of the \$173,814 expended on the Public Charter Schools program during fiscal year 2007.

We recommend the Academy use grant funds only for expenditures obligated during the period of availability. The Academy should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

Officials' Response and Corrective Action Plan:

First, it is important to note that the instructional supply orders in question were items that were eligible to be ordered from the grant. The questioned costs relates to the fact that management was unable to provide conclusive evidence that the orders for the instructional supply items totaling \$33,577 were placed prior to the June 30, 2006 cut off date for obligating the grant. Since vendor invoices were dated shortly after June 30, 2006 and fax confirmation for the orders could not be located, it is difficult to prove the specific date orders were placed. For orders placed during 2006-07, management was able to produce copies of fax confirmations for all purchase orders submitted.

Anticipated Completion Date: Completed. No citations were noted related to the 2006-2007 fiscal year grant expenditures.

Responsible Contact Person: Michael Troper

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
--

Title I- Student Eligibility

Finding Number	2007-008
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness

Title I, Section 1115 of the Elementary and Secondary Education Act (ESEA) (20 U.S.C. Section 6315) provides that Title I, Part A, funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas, a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State’s challenging student academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the LEA and supplemented by the school.

Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State’s student academic achievement standards and are thus eligible for Part A services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; children who received services under the Migrant Education Program under Title I, Part C at any time in the two preceding years; and children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services.

The Academy established two criteria for 2007 after-school program which included having a testing score below a certain level and having a teacher referral for the program. However, the Academy failed to maintain records to document teacher referrals for the students served in the after school program.

Accordingly, the amount expended by the Academy for the after school tutoring program are questioned costs. Therefore, \$12,119 of the \$156,227 expended on the Title I program are questioned costs.

We recommend that the Academy establish written criteria to be used to by the Title I staff as a basis to prioritize the individual students with the greatest need for Title I services. The Academy should also ensure Title I eligibility determination files clearly document individual student test scores, teacher recommendation, and other information used to determine eligible students. In addition, the Academy should contact the Ohio Department of Education to determine if repayment of these funds is necessary.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
--

Title I- Student Eligibility (Continued)

Finding Number	2007-008
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness (Continued)

Officials' Response and Corrective Action Plan:

Although documentation for the teacher recommendation criteria for identifying children eligible for service under Title I was not available for each child serviced under the program, management believes that those students being serviced via Title I tutoring were actually eligible under test score criteria. During the auditor's interview process with the school's administration, it was noted that the school was using test scores and teacher recommendations as eligibility criteria. Auditors took that to mean that both criteria had to be met. The school's intention in establishing two different criteria was to first identify the "most needy" eligible children by test scores and if there was a compelling reason for a particular student that might not meet the "most needy" definition per the test score data to be included in the Title I program, that teachers could document those reasons why the child is able to be qualify as part of the "most needy" group in the form of a teacher recommendation. For example, if a child performs in the bottom 10% of his/her class in math, the logical assumption is that the child meets the "most needy" definition and is eligible without further teacher documentation of reasons. Documented teacher recommendation would only be used for someone on the fringe or outside the cutoff point for eligibility but that is determined to be highly at risk of failure because of the child's particular circumstances or home environment. Management agrees, however, that clarity with regards to criteria is necessary and is establishing criteria in writing going forward to avoid potential misunderstandings.

Anticipated Completion Date: Management believes the issue is resolved moving forward. Title I criteria will be formally presented as part of an upcoming Board meeting.
Responsible Contact Person: Ranay Nunamaker

Auditor of State Conclusion:

The Academy's Title I staff confirmed to the Auditor off State that eligibility for all of the Academy's Title I programs was based on two criteria being met, a test score and a teacher recommendation.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
--

Title I- Activities Allowed and Allowable Costs/Cost Principles

Finding Number	2007-009
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness

Title I, Section 1115 of the ESEA, (20 U.S.C. Section 6315), requires that in a targeted assistance school, funds available under Part A may be used only for programs that are designed to help participating children meet the State’s student academic achievement standards expected of all children

Allowable activities in these schools include, but are not limited to instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development.

If health, nutrition, and other social services are not otherwise available from other sources to participating children, Part A funds may be used as a last resort to provide such services. The Academy’s plan will provide a description of the general nature of the services to be provided with Part A funds.

2 C.F.R. Part 225, Appendix A Section C.1.j. (formerly known as OMB Circular A-87, Attachment A Section C.1.j.) states that to be allowable under federal awards, costs must be adequately documented.

2 C.F.R. Part 225, Appendix B Section 8.a. (formerly known as OMB Circular A-87, Attachment B Section 8.a.) states in part that the costs of compensation for personnel services are allowable to the extent that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied for both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit’s laws and rules and meets merit system or other requirements required by Federal Law; and
- (3) Is determined and supported as provided in subsection h.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
--

Title I- Activities Allowed and Allowable Costs/Cost Principles (Continued)

Finding Number	2007-009
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness (Continued)

2 C.F.R. Part 225, Appendix B Sections 8.h.(3) & 8.h.(4) states that:

- Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards.

2 C.F.R. Part 225, Appendix B Section 26.c. (formerly known as OMB Circular A-87, Attachment B Section 26.c.) states that only materials and supplies used for the performance of a Federal award may be charged as direct costs.

As noted in Finding Number 2007-005, the Academy authorized an employee to be paid as a full time Title I instructional aide and as a substitute teacher. The Academy paid salary and benefits of \$14,599 to the employee for Title I instructional aide services but there was no certifications or activity reports maintained to document the extent those salaries and benefits were within the scope of the Title I program objectives. In addition the Academy paid hourly wages and benefits of \$346 to employees that did not have supporting time sheets to document time spent providing Title I after-school services.

Accordingly, a questioned cost is issued in the amount of \$14,945 of the \$156,227 expended on the Title I grant program during fiscal year 2007.

The Academy should ensure that documentation supporting direct costs of the Title I Program is maintained to demonstrate expenditures meet the direct costs provisions for expenditures incurred. The Academy should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
--

Title I- Activities Allowed and Allowable Costs/Cost Principles (Continued)

Finding Number	2007-009
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness (Continued)

Officials' Response and Corrective Action Plan:

Certifications were available for 2006-07 personnel servicing students during the in school program with the exception of the one individual noted by auditors. The Academy's administration could not locate a certification signed by this individual. Since individuals servicing eligible children in after school tutoring program report those hours separately and specifically as Title I Tutoring hours and are paid at a set hourly rate for these extra duties performed outside the normal school day, no certifications were deemed to be necessary. For 2007-08, grant funded personnel are also being required to submit copies of their service logs to administration so logs are available for auditors to review.

Anticipated Completion Date: Management believes that by having the CAO collect and retain copies of Title I service logs that it will be verifiable that services were provided to eligible children.

Responsible Contact Person: Ranay Nunamaker

Auditor of State Conclusion:

The Academy was not able to provide time sheets, single funding certificates, or other records to demonstrate time and effort allocated to Title I services for the employees questioned above.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2007
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Revised Code § 3314.082-Payment of Taxes	No	Finding no longer valid
2006-002	Sponsorship Agreement—The Academy had not obtained Tax Exempt Status	Yes	N/A
2006-003	Debt Payments in Accordance with Promissory Note Agreement	No	Not corrected: this finding is being repeated as finding: 2007-001.
2006-004	GAAP Financial Statement Preparation and Reporting	No	Partially corrected; this finding is being repeated in the management letter.
2006-005	Ohio Department of Education Federal Report Procedures #1-- Title I and Public Charter School-Reporting	No	Not corrected; this finding is being repeated as finding: 2007-006.
2006-006	34 CFR Section 74.28-Title I-Period of Availability	No	Partially corrected; this finding is being repeated as finding 2007-007 for the Public Charter School Grant.



Mary Taylor, CPA
Auditor of State

COLUMBUS PREPARATORY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 22, 2008**