



Dave Yost • Auditor of State

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Cornerstone Academy
Franklin County
6205 E. Walnut Street
Westerville, Ohio 43081

To the Board of Directors:

We have audited the accompanying basic financial statements of the Cornerstone Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cornerstone Academy, Franklin County, Ohio, as of June 30, 2010, and the changes in financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 18 to the financial statements, the Academy's deficit net assets (\$1,991,803) and operating loss (\$957,117) raise substantial doubt about its ability to continue as a going concern. Note 18 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

Dave Yost
Auditor of State

January 14, 2011

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

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

Highlights

The Academy finished its third year of operations since emerging from a temporary voluntary suspension of operations during fiscal year 2008 serving kindergarten through seventh grade. The Academy suspended operations during the period October 1, 2006 through June 30, 2007 and resumed operations July 1, 2007. Enrollment varied during fiscal year 2010 but averaged 278 students.

As of fiscal year ended June 30, 2010:

- Net Assets decreased \$652,022.
- Operating Revenues accounted for \$1,687,599 of the Academy's total funding of \$2,111,911.
- The Academy had an operating loss of \$957,117 of which \$424,312 was funded by non-operating federal grants. The Academy was able to utilize the federal grant allocations for fiscal year 2010.

Overview of the Financial Statements

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

Financial Analysis of the Academy as a Whole

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

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

The following table represents the Academy's statement of net assets:

Table 1
Net Assets

| | June 30, 2010 | June 30, 2009 | Change |
|---|----------------------|----------------------|--------------------|
| <u>Assets:</u> | | | |
| Current Assets | \$158,790 | \$45,636 | \$113,154 |
| Capital Assets | 175,473 | 189,854 | (14,381) |
| Total Assets | <u>334,263</u> | <u>235,490</u> | <u>98,773</u> |
| <u>Liabilities:</u> | | | |
| Current Liabilities | 1,002,069 | 1,492,332 | (490,263) |
| Noncurrent Liabilities | 1,323,997 | 82,939 | 1,241,058 |
| Total Liabilities | <u>2,326,066</u> | <u>1,575,271</u> | <u>750,795</u> |
| <u>Net Assets:</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 62,468 | 86,152 | (23,684) |
| Restricted for Other Purposes | 92 | 65 | 27 |
| Unrestricted | (2,054,363) | (1,425,998) | (628,365) |
| Total Net Assets | <u>(\$1,991,803)</u> | <u>(\$1,339,781)</u> | <u>(\$652,022)</u> |

Results of fiscal year 2010 indicate an ending net asset deficit of \$1,991,803, a decrease of \$652,022 from fiscal year end 2009. While the number of enrolled students dramatically increased, there was a significant concentration of kindergarten students that were recruited with the intent of building enrollment as the students grow. The problem is that the funding for about a third of those kindergarten students was at half the regular funding rate because the students come from a district that only provides half day kindergarten instruction. As those students move out of kindergarten to a fully funded full time equivalent, revenues will be significantly higher. Enrollment for 2010 averaged 278 students, far from capacity for the new building which is approximately 475. As enrollment nears capacity of the facility, the Academy will generate annual surpluses to recover from prior net asset deficits.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Changes in Net Assets – The following table shows the changes in net assets for the following fiscal periods:

Table 2
Change in Net Assets

| | Year ended June 30, 2010 | Year ended June 30, 2009 | Change |
|---|--------------------------------|--------------------------------|------------------------|
| <u>Operating Revenues:</u> | | | |
| Foundation | \$1,592,657 | \$897,667 | \$694,990 |
| Charges for Services | 86,086 | 55,814 | 30,272 |
| Miscellaneous | 8,856 | 716 | 8,140 |
| <u>Non-Operating Revenues:</u> | | | |
| Federal/State Restricted Grants | 424,312 | 100,759 | 323,553 |
| Total Revenues | <u>\$2,111,911</u> | <u>\$1,054,956</u> | <u>\$1,056,955</u> |
| <u>Operating Expenses:</u> | | | |
| Building | 691,501 | 136,076 | 555,425 |
| Purchased Services | 1,739,143 | 1,131,756 | 607,387 |
| Depreciation | 47,262 | 30,725 | 16,537 |
| General Supplies | 143,899 | 32,522 | 111,377 |
| Other Operating Expense | 22,911 | 18,691 | 4,220 |
| <u>Non-Operating Expenses:</u> | | | |
| Interest | 119,217 | 130,045 | (10,828) |
| Total Expenses | <u>\$2,763,933</u> | <u>\$1,479,815</u> | <u>\$1,284,118</u> |
| Total Increase (Decrease) in Net Assets | <u>(\$652,022)</u> | <u>(\$424,859)</u> | <u>(\$227,163)</u> |

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, 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. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain management services, other operating expenses and invoices for payroll of Academy staff.

Management expects enrollment to continue to grow at a significant pace as the Academy adds another grade level in the fall of 2011. By having high retention rates and filling kindergarten sections each year, the Academy should be able to grow to capacity without having to recruit additional students for its additional grade levels. Management's goal is to operate at or near full enrollment capacity which will enable the Academy to achieve surpluses and eventually eliminate the current net asset deficit.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2010, the Academy had \$175,473 (net of accumulated depreciation) invested in capital assets. The following table summarizes Capital Asset activity for the fiscal year ended June 30, 2010:

| | <u>June 30,</u> <u>2010</u> | <u>June 30,</u> <u>2009</u> | <u>Increase</u> <u>(Decrease)</u> |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------------|
| Leasehold Improvements | \$34,783 | \$34,783 | \$0 |
| Less: Accumulated Amortization | (4,637) | (2,319) | (2,318) |
| | <u>\$30,146</u> | <u>\$32,464</u> | <u>(\$2,318)</u> |
| Computers | \$97,388 | \$97,388 | \$0 |
| Less: Accumulated Depreciation | (78,172) | (58,694) | (19,478) |
| Net Capital Assets: | <u>19,216</u> | <u>38,694</u> | <u>(19,478)</u> |
| Furniture and Fixtures | 170,779 | 137,898 | 32,881 |
| Less: Accumulated Depreciation | (44,668) | (19,202) | (25,466) |
| Net Capital Assets: | <u>126,111</u> | <u>118,696</u> | <u>7,415</u> |
| Net Capital Assets | <u><u>\$175,473</u></u> | <u><u>\$189,854</u></u> | <u><u>(\$14,381)</u></u> |

For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2010, the Academy had \$113,005 of capital lease obligations for technology and furniture and fixtures outstanding. Of that amount \$27,885 is due within one year. In addition, the Academy executed a \$1,238,877 promissory note in 2010 payable to Mosaica Education, Inc., a related party (see note 16), to finance outstanding invoices for services and/or reimbursable expenses over a multi-year term at a seven percent fixed rate of interest. No principal is due within one year. The following table summarizes the Academy's debt activity for the fiscal year ended June 30, 2010:

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

| | <u>Balance at June 30, 2009</u> | <u>New Borrowings</u> | <u>Principal Payments</u> | <u>Balance at June 30, 2010</u> |
|-------------------------|-------------------------------------|---------------------------|-------------------------------|-------------------------------------|
| Capital leases payable | \$103,702 | \$32,880 | \$23,577 | \$113,005 |
| Promissory note payable | 0 | 1,238,877 | 0 | 1,238,877 |
| Total debt payable | <u>\$103,702</u> | <u>\$1,271,757</u> | <u>\$23,577</u> | <u>\$1,351,882</u> |

For further information regarding the Academy's debt, refer to Note 14 to the basic financial statements.

Economic Factors

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

Operations

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through sixth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact the Treasurer for Cornerstone Academy, 2255 East Kimberly Parkway, Columbus, Ohio 43232.

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**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Assets:

Current assets:

| | |
|------------------------------|----------------|
| Cash and Cash Equivalents | \$ 18,205 |
| Accounts Receivable | 2,838 |
| Intergovernmental Receivable | 131,911 |
| Prepaid Expense | 5,836 |
| Total current assets | <u>158,790</u> |

Noncurrent assets:

| | |
|---|----------------|
| Capital Assets, net of Accumulated Depreciation | 175,473 |
| Total assets | <u>334,263</u> |

Liabilities:

Current Liabilities:

| | |
|-----------------------------------|------------------|
| Accounts Payable, Trade | 160,984 |
| Accounts Payable, Related Party | 812,301 |
| Accrued Expenses | 899 |
| Current Portion of Long-term Debt | 27,885 |
| Total current liabilities | <u>1,002,069</u> |

Noncurrent liabilities:

| | |
|---------------------------------------|-----------|
| Non Current Portion of Long-term Debt | 1,323,997 |
|---------------------------------------|-----------|

| | |
|--------------------------|------------------|
| Total liabilities | <u>2,326,066</u> |
|--------------------------|------------------|

Net Assets

| | |
|---|-----------------------|
| Invested in Capital Assets, Net of Related Debt | 62,468 |
| Restricted Net Assets | 92 |
| Unrestricted Net Assets | (2,054,363) |
| Total Net Assets | <u>\$ (1,991,803)</u> |

See Accompanying Notes to the Basic Financial Statements

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

| | |
|---|------------------------------|
| Operating Revenues: | |
| Community School Foundation | \$ 1,592,657 |
| Charges for Services | 86,086 |
| Miscellaneous | 8,856 |
| Total Operating Revenues | <u>1,687,599</u> |
| Operating Expenses: | |
| Building | 691,501 |
| Purchased Services | 1,739,143 |
| Depreciation | 47,262 |
| General Supplies | 143,899 |
| Other Operating Expenses | 22,911 |
| Total Operating Expenses | <u>2,644,716</u> |
| Operating Loss | <u>(957,117)</u> |
| Nonoperating Revenues and Expenses: | |
| Federal and State Restricted Grants | 424,312 |
| Interest Expense | (119,217) |
| Total Nonoperating Revenues and Expenses | <u>305,095</u> |
| Change in Net Assets | (652,022) |
| Net Assets (Deficit) Beginning of Year | <u>(1,339,781)</u> |
| Net Assets (Deficit) End of Year | <u><u>\$ (1,991,803)</u></u> |

See Accompanying Notes to the Basic Financial Statements

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|--------------------|
| Foundation Receipts | \$ 1,574,245 |
| Charges for Services | 84,136 |
| Miscellaneous | 8,856 |
| Cash Payments to Suppliers for Goods and Services | <u>(1,944,010)</u> |
| Net Cash Used For Operating Activities | <u>(276,773)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|----------------|
| Short-term Financing Payments | (23,390) |
| Federal and State Grant Receipts | <u>326,371</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>302,981</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|-----------------|
| Capital Lease Interest Payments | (10,179) |
| Capital Lease Principal Retirement | <u>(23,577)</u> |
| Net Cash Used for Capital and Related Financing Activities | <u>(33,756)</u> |

| | |
|---|----------------------|
| Net Decrease in Cash and Cash Equivalents | (7,548) |
| Cash and Cash Equivalents - Beginning of the Year | <u>25,753</u> |
| Cash and Cash Equivalents - Ending of the Year | <u><u>18,205</u></u> |

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

| | |
|----------------|------------------|
| Operating Loss | <u>(957,117)</u> |
|----------------|------------------|

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

| | |
|---|----------------------------|
| Depreciation | 47,262 |
| Changes in assets and liabilities: | |
| Increase in Accounts Receivable | (21,249) |
| Increase in Prepaid Expense | (1,510) |
| Increase in Accounts Payable, Trade | 95,842 |
| Increase in Accounts Payable, Related Party | 559,999 |
| Net Cash Used for Operating Activities | <u><u>\$ (276,773)</u></u> |

See Accompanying Notes to the Basic Financial Statements

**Noncash Noncapital financing activities and
Capital and related financing activities**

The Academy entered into a capital lease for \$32,880 for the purchase of furniture.

The Academy entered into a promissory note agreement with Mosaica Education, Inc. for \$1,238,877 which transferred a portion of the Academy's Accounts Payable, Related Party balance to Long-term Debt.

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**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 1 - Description of the School

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

Ohio Revised Code Section 3314.02(E) states in part that the Academy operate under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operates or manages an academy for the Governing Board. The Board is responsible for carry out the provisions of the contract that include, but are not limited to, state-mandated provision regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Academy's Governing Board also serves as the Board for the Columbus Humanities Arts and Technology 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 16.

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.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the period ended June 30, 2010.

F. Capital Assets

The Academy's capital assets during the year ended June 30, 2010 consisted of computers, furniture, leasehold improvements and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

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

| <u>Description</u> | <u>Useful Lives</u> |
|-------------------------|---------------------|
| Furniture and Equipment | 5-10 years |
| Leasehold Improvements | 15 years |

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2010, the Academy reported \$92 of restricted net assets that was a result of unspent grant receipts and \$62,468 of net assets invested in capital assets net of related debt.

H. Operating Revenues and Expenses

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

I. Estimates

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

J. Economic Dependency

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

Note 3 – Changes in Accounting Principles

There were no changes in accounting principles implemented during 2010 that would have a material effect on the financial statements.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(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, 2010, the carrying value of the Academy's deposits totaled \$18,205 and the bank balance totaled \$19,645. The bank balance was covered by federal depository insurance. The Academy has no investments at year end.

Note 5 – Receivables

At June 30, 2010, the Academy had intergovernmental receivables in the amount of \$131,911. The receivables are expected to be collected within one year.

| Grant | Amount |
|------------------------------------|-----------|
| Title I | \$77,844 |
| Title I ARRA | 22,668 |
| Title II-D | 983 |
| Title IV-A | 735 |
| IDEA B | 7,889 |
| ODE Foundation Adjustment | 18,412 |
| Child Nutrition Program | 3380 |
| Total Intergovernmental Receivable | \$131,911 |

Note 6 - Capital Assets

Capital asset activity for the period July 1, 2009 to June 30, 2010, was as follows:

| | Balance June 30, 2009 | Additions | Deletions | Balance June 30, 2010 |
|-----------------------------------|--------------------------|------------|-----------|--------------------------|
| Depreciable Capital Assets | | | | |
| Leasehold Improvements | \$34,783 | \$0 | \$0 | \$34,783 |
| Computer Technology | 97,388 | 0 | 0 | 97,388 |
| Furniture & Equipment | 137,898 | 32,881 | 0 | 170,779 |
| Total at Historical Cost | 270,069 | 32,881 | 0 | 302,950 |
| Less: Accumulated Depreciation | | | | |
| Leasehold Improvements | (2,319) | (2,318) | 0 | (4,637) |
| Computer Technology | (58,694) | (19,478) | 0 | (78,172) |
| Furniture & Equipments | (19,202) | (25,466) | 0 | (44,668) |
| Capital Assets, Net | \$189,854 | (\$14,381) | \$0 | \$175,473 |

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 7 - Risk Management

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the Academy contracted with Brown & Brown of Marmora through The Hartford for property and general liability insurance. The policy calls for general liability coverage of \$1,000,000 single occurrence limit and \$2,000,000 aggregate. The Academy also carried excess/umbrella liability coverage of \$5,000,000.

B. Workers' Compensation

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

C. Other Employee Benefits

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

Note 8 – Purchased Services

For fiscal year ended June 30, 2010, purchased service expenses were for the following services:

| Purchased Services | June 30, 2010 |
|---|------------------|
| Personnel Services | \$1,154,747 |
| Building Services | 88,778 |
| Food Services | 84,415 |
| Student Services | 44,982 |
| Instructional and Administrative Services | 285,726 |
| Professional Services | 28,904 |
| Sponsor Services | 35,016 |
| Advertising | 16,575 |
| | <hr/> |
| | \$1,739,143 |
| | <hr/> |

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(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 systems consider the School as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employee Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.74 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$27,018, \$13,918, and \$8,602 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 9 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, 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, 2010, 2009, and 2008 were \$85,366, \$52,871, and \$43,888 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were made by the School.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2010, none of the members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Note 10 - Postemployment Benefits

A. School Employee Retirement System

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 10 - Postemployment Benefits (Continued)

A. School Employee Retirement System (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.5 percent of covered payroll was allocated to health care.

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

The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,060, \$6,351, and \$3,925 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,612, \$1,003, and \$619 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$6,567, \$4,067, and \$3,376 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 11 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2010.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review resulted in state funding being adjusted due to an underpayment in the amount of \$18,412 by ODE. The underfunded amount has been recorded as an increase in revenue and intergovernmental receivables at June 30, 2010.

Note 12 – Capital Lease-Lessee Disclosure

The Academy entered into several lease agreements between fiscal years 2006 and 2010 for the purchase of technology (computers), furniture and equipment for an original cost of \$195,256. In addition, in fiscal year 2009, the Academy entered into a lease agreement for the purchase of security, cabling, paging and telephone systems for an original cost of \$72,914. The Academy's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases". The equipment has been capitalized in the amount of \$268,169, the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows for June 30, 2010:

| <u>Year Ending June 30,</u> | <u>Technology</u> |
|--|-------------------------|
| 2011 | \$37,524 |
| 2012 | \$37,524 |
| 2013 | \$32,743 |
| 2014 | \$23,896 |
| 2015 | \$3,757 |
| Total future minimum lease payments | <u>135,444</u> |
| Less: amount representing interest | <u>(22,439)</u> |
| Present value of future minimum lease payments | <u><u>\$113,005</u></u> |

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 12 – Capital Lease-Lessee Disclosure (Continued)

A liability for capital lease obligations in the amount of \$113,005 is reported on the Statement of Net Assets for year ended June 30, 2010. Of this amount, \$27,885 is a current liability due within one year. The following table summarizes the capital lease activity for the year ended June 30, 2010:

| | |
|--|-------------------------|
| Capital Lease balance at July 1, 2009 | \$103,702 |
| Additions | 32,880 |
| Payments | <u>(23,577)</u> |
| Capital Lease balance at June 30, 2010 | <u><u>\$113,005</u></u> |

Note 13 – Building Lease

In September 2008, the Academy entered into a lease agreement with Mosaica Columbus LLC, an affiliated company of Mosaica Education, Inc. for the use of a school facility located at 6025 East Walnut Street, Westerville, OH. During fiscal year 2009, the facility was under construction and was not available for use. As such, rental payments were not incurred during fiscal 2009 but commenced July 2009, the building construction completion date. The building is on 5.0 acres of land and is approximately 40,000 square feet. The lease term is fifteen years through June 2024. Lease payments are \$45,833 per month with inflation escalations each succeeding year beginning in July 2010. Excluding annual inflation rent adjustments, the following summarizes the lease commitment for the Academy:

| <u>Fiscal Year End June 30,</u> | <u>Annual Rent</u> |
|---------------------------------|---------------------------|
| 2011 | \$ 550,000 |
| 2012 | 550,000 |
| 2013 | 550,000 |
| 2014 | 550,000 |
| 2015 | 550,000 |
| 2016-2020 | 2,750,000 |
| 2021-2024 | <u>2,200,000</u> |
| Total Lease Commitment | <u><u>\$7,700,000</u></u> |

Note 14 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2010 were as follows:

| | <u>Balance at June 30, 2009</u> | <u>New Borrowings</u> | <u>Principal Payments</u> | <u>Balance at June 30, 2010</u> | <u>Amount Due Within One Year</u> |
|-------------------------|-------------------------------------|---------------------------|-------------------------------|-------------------------------------|---------------------------------------|
| Capital leases payable | \$103,702 | \$32,880 | \$23,577 | \$113,005 | \$27,885 |
| Promissory note payable | <u>0</u> | <u>1,238,877</u> | <u>0</u> | <u>1,238,877</u> | <u>0</u> |
| Total debt payable | <u><u>\$103,702</u></u> | <u><u>\$1,271,757</u></u> | <u><u>\$23,577</u></u> | <u><u>\$1,351,882</u></u> | <u><u>\$27,885</u></u> |

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 14 – Long-Term Obligations (Continued)

In 2010, the Academy executed a \$1,238,877 promissory note in 2010 payable to Mosaica Education, Inc., a related party (see note 16), to finance outstanding invoices for services and/or reimbursable expenses over a multi-year term at a fixed rate of interest. Quarterly installments are due beginning September 15, 2010 and continue through maturity on March 15, 2019. The following is a schedule of debt service on these obligations:

| <u>Fiscal year ending</u> | <u>Installments</u> |
|----------------------------------|----------------------------|
| June 30, 2011 | \$40,000 |
| June 30, 2012 | 80,000 |
| June 30, 2013 | 140,000 |
| June 30, 2014 | 180,000 |
| June 30, 2015 | 220,000 |
| June 30, 2016 thru June 30, 2019 | <u>1,319,876</u> |
| Total Payments | 1,979,876 |
| Principal | <u>(1,238,877)</u> |
| Interest | <u><u>\$740,999</u></u> |

Note 15 – Tax Exempt Status

The Academy is tax-exempt status under 501(c) 3 of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

Note 16 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for the period ending June 30, 2010 was \$262,707.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc. employees working at the Academy, and other costs related to providing educational and administrative services. The total expenses paid to Mosaica Education Inc. during fiscal year 2010 were \$1,271,346.

At June 30, 2010, the Academy had payables to Mosaica Education in the amount of \$812,301.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY**

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

Note 16 – Related Party Transactions/Management Company (Continued)

The following is a schedule of all expenses billed by Mosaica Education, Inc. as of the fiscal year ended June 30, 2010:

| | <u>June 30, 2010</u> |
|--------------------------|-------------------------|
| Payroll | \$280,490 |
| Management Fee | 104,532 |
| Facility Rent | 137,500 |
| Real Estate Taxes | 190,783 |
| Expense Reimbursements | 7,844 |
| Interest/Finance Charges | <u>91,152</u> |
| Total | <u><u>\$812,301</u></u> |

Some Board members for the Academy are also Board members for another Academy managed by Mosaica Education.

Note 17 – Sponsor

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 1, 2005. As part of this contract, the Sponsor is entitled to a maximum of 3% of the total state funds. Total amount due and paid for year ended June 30, 2010 was \$35,016.

Note 18– Management’s Plan

At June 30, 2010, the Academy had a net asset deficit of \$1,991,803. As further discussed in Note 14, a significant portion of that net asset deficit is being funded by the notes and accounts payable of \$1,238,877 and \$812,301, respectively, to Mosaica Education. As of December 31, 2010 the Academy’s change in net assets was (\$648,593) and net asset deficit was (\$1,988,374).

Final full time equivalent student enrollment was 268 and 150 students for the fiscal years ending June 30, 2010 and 2009. Current full time equivalent student enrollment as of December 2010 is 392. The Academy, with financial backing from its management company, was able to relocate from modular structures to a permanent facility for opening in fall of 2009 and management believes that the Academy is in a strong position to grow enrollment to or near capacity in the near future as a result of having a facility designed for educating children, strong community reputation for academic achievement and active advertising via print, radio, mailings and parent referrals. This will allow the Academy to begin to generate annual surpluses that will, over time, allow a recovery from the existing cumulative deficits.



Dave Yost • Auditor of State

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

Cornerstone Academy
Franklin County
6025 E. Walnut Street
Westerville, Ohio 43081

To the Board of Directors:

We have audited the basic financial statements of Cornerstone Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 14, 2011, wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Government's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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www.auditor.state.oh.us

Cornerstone Academy
Franklin County
Independent Accountants' Report On Internal Control Over
Financial Reporting and On Compliance and Other Matters
Required By *Government Auditing Standards*
Page 2

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated January 14, 2011.

We intend this report solely for the information and use of management, the audit committee, the Board of Directors, St. Aloysius Orphanage, and others within the Academy. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

January 14, 2011



Dave Yost • Auditor of State

CORNERSTONE ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 3, 2011**