



**COLUMBUS HUMANITIES ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Columbus Humanities Arts and Technology Academy
Franklin County
1333 Morse Road
Columbus, Ohio 43229

To the Board of Directors:

We have audited the accompanying financial statements of Columbus Humanities Arts and Technology Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Columbus Humanities Arts and Technology Academy, Franklin County, Ohio, as of June 30, 2011, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 (\$4,177,234) and operating loss (\$1,573,098) 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 March 12, 2012, 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.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 12, 2012

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED*

The discussion and analysis of the Columbus Humanities Arts & Technology Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2011. 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 sixth year of operation during fiscal year 2011 serving grades kindergarten through eighth grade. Enrollment varied during the year but finished with 367 students.

Key highlights for fiscal year 2011 are as follows:

- Net assets decreased \$611,970 as compared to \$919,282 in the prior fiscal year.
- Academy had an operating loss of \$1,573,098 compared to an operating loss of \$1,672,408 in the prior fiscal year.
- The fiscal 2011 operating loss was substantially offset by \$1,211,817 of non-operating federal and state restricted grants.

Overview of the Financial Statements

The financial report consists of three parts—management discussion and analysis, the basic financial statements and note disclosures. 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 the full understanding of the data provided in 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 HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets for 2011 compared to 2010:

Table 1
Net Assets

	2011	2010	Change
<u>Assets:</u>			
Current Assets	\$218,802	\$197,387	\$21,415
Capital Assets	24,536	37,083	(12,547)
Total Assets	<u>243,338</u>	<u>234,470</u>	<u>8,868</u>
<u>Liabilities:</u>			
Current Liabilities	2,124,586	1,412,689	711,897
Long-Term Liabilities	<u>2,295,986</u>	<u>2,387,045</u>	<u>(91,059)</u>
	<u>4,420,572</u>	<u>3,799,734</u>	<u>620,838</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	4,173	4,382	(209)
Restricted for Other Purposes	2,365	7,722	(5,357)
Unrestricted	<u>(4,183,772)</u>	<u>(3,577,368)</u>	<u>(606,404)</u>
Total Net Assets	<u><u>(\$4,177,234)</u></u>	<u><u>(\$3,565,264)</u></u>	<u><u>(\$611,970)</u></u>

Total net assets decreased \$611,970. The cause of the decrease was the Board's recognition of the need to continue to offer academic programming that would accelerate learning of underperforming students faster than the traditional single grade level gains. During 2007, the Academy relocated from the temporary modular site to the current permanent site. With that relocation the Academy was able to obtain a facility that is better designed for educating children and had significantly higher capacity, albeit at a higher annual occupancy cost. Until enrollment grows closer to capacity, the Academy will have difficulty with breaking even. The goal of the facility decision was to enhance the learning environment and provide capacity to grow enrollment into the future. Once the growth occurs, the Academy would begin to generate surpluses on an annual basis sufficient to eliminate 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 have 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 in the long-run and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary program became available by taking out a long term notes from the Academy's management company in December of 2005 (since retired), again in June 2007 (since retired) and again in July 2009. Additional resources have been made available by delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and invoices for leasing the Academy's staff.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2011 as compared to 2010:

Table 2
Change in Net Assets

	2011	2010	Change
<u>Operating Revenues:</u>			
Foundation	\$2,290,435	\$2,332,708	(\$42,273)
Charges for Services and Miscellaneous	12,788	25,564	(12,776)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	1,211,817	930,779	281,038
Total Revenues	<u>\$3,515,040</u>	<u>\$3,289,051</u>	<u>\$225,989</u>
<u>Operating Expenses:</u>			
Building	819,116	814,014	5,102
Purchased Services	2,895,741	3,082,069	(186,328)
Depreciation	12,547	12,739	(192)
General Supplies	121,579	91,858	29,721
Other Operating Expense	27,338	30,000	(2,662)
<u>Non-Operating Expenses:</u>			
Interest	250,689	177,653	73,036
Total Expenses	<u>\$4,127,010</u>	<u>\$4,208,333</u>	<u>(\$81,323)</u>
Total Increase (Decrease) in Net Assets	<u><u>(\$611,970)</u></u>	<u><u>(\$919,282)</u></u>	<u><u>\$307,312</u></u>

Average enrollment in fiscal 2011 decreased from fiscal 2010 by approximately 1 student. The decline in enrollment was more than offset by increased Federal Stimulus Funds made available to the Academy. However, net results remained relatively consistent with fiscal 2010 when taking into consideration the \$300,000 of startup development and charter issuance charges that were recognized in 2010. Furthermore, interest costs increased in fiscal 2011 due to an increase in the deferred payments due to the Academy's management company.

It is Management's goal to increase enrollment to be closer to the facility's capacity of approximately 750 students (see Note 18) at which point the Academy would generate surpluses on an annual basis sufficient to eliminate accumulated deficits.

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

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the Academy had \$24,536 invested in capital assets (net of accumulated depreciation) for its computers and other equipment, a decrease of \$12,547. The following table shows fiscal year 2011 compared to 2010:

Capital Assets at June 30 (Net of Depreciation)

	2011	2010	Change
Building/Improvements	\$6,618	\$7,220	(\$602)
Furniture & Equipment	17,918	29,863	(11,945)
	\$24,536	\$37,083	(\$12,547)

The decrease in net capital assets represents the depreciation expense for the year. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2011, the Academy had \$2,387,150 in notes and capital leases outstanding, with \$91,164 being due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2011:

Outstanding Debt, at Year End

	2011	2010	Change
Capital Leases Payable	\$20,363	\$32,701	(\$12,338)
Installment Notes Payable	2,366,787	2,438,148	(71,361)
Total	\$2,387,150	\$2,470,849	(\$83,699)

For further information regarding the Academy's debt, refer to Note 13 and Note 14 to the basic financial statements.

Economic Factors

With the exception of a change in State law that, effective in September 2011, local taxing authorities can no longer assess real estate taxes against community schools that lease facilities from for-profit landlords, 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. This tax law change is expected to save the Academy in excess of \$100,000 on an annual basis going forward. The tax law change is not retroactive, but the past liability for assessed property taxes has already been reflected in these and the previously issued audited financial statements of the Academy.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)*

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 Brenda Neff, Treasurer of Columbus Humanities, Arts & Technology Academy, 1333 Morse Road, Columbus, Ohio 43229.

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**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 42,270
Intergovernmental Receivable	164,275
Prepaid Expense	12,257
Total current assets	218,802

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	24,536
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Total assets

\$ 243,338

Liabilities:

Current liabilities:

Accounts Payable, Trade	\$ 74,881
Accounts Payable, Related Party	1,956,183
Accrued Interest	129
Deferred Revenue	2,229
Current Portion of Long-term Debt	91,164
Total current liabilities	2,124,586

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt	2,295,986
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Total liabilities

\$ 4,420,572

Net Assets

Invested in Capital Assets, Net of Related Debt	\$ 4,173
Restricted Net Assets	2,365
Unrestricted Net Assets	(4,183,772)
Total Net Assets	\$ (4,177,234)

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NETS ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

Operating Revenues:	
Community School Foundation	\$ 2,290,435
Charge for Services	9,089
Miscellaneous	3,699
Total Operating Revenues	<u>2,303,223</u>
 Operating Expenses:	
Building	819,116
Purchased Services	2,895,741
Depreciation	12,547
General Supplies	121,579
Other Operating Expenses	27,338
Total Operating Expenses	<u>3,876,321</u>
Operating Loss	<u>(1,573,098)</u>
 Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	1,211,817
Interest Expense	(250,689)
Net Nonoperating Revenues and Expenses	<u>961,128</u>
Change in Net Assets	(611,970)
Net Assets Beginning of Year	<u>(3,565,264)</u>
Net Assets End of Year	<u>\$ (4,177,234)</u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES	
Foundation Receipts	\$ 2,283,723
Charge for Services	9,089
Other Operating Receipts	3,699
Cash Payments to Suppliers for Goods and Services	(3,317,800)
Net Cash Used by Operating Activities	<u>(1,021,289)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Note Payable Interest Payments	(45,000)
Note Payable Principal Retirement	(71,361)
Short-term Financing Payments	(38,728)
Federal and State Grant Receipts	1,197,756
Net Cash Provided by Noncapital Financing Activities	<u>1,042,667</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Lease Interest Payments	(2,075)
Capital Lease Principal Retirement	(12,338)
Net Cash Used by Capital and Related Financing Activities	<u>(14,413)</u>
Net Increase in Cash and Cash Equivalents	6,965
Cash and Cash Equivalents - Beginning of the Year	35,305
Cash and Cash Equivalents - Ending of the Year	<u>\$ 42,270</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	\$ (1,573,098)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	12,547
Changes in assets and liabilities:	
Increase in Prepaid Expense	(393)
Decrease in Accounts Payable, Trade	(39,610)
Increase in Accounts Payable, Related Party	585,976
Decrease in Deferred Revenue	(6,711)
Net Cash Used for Operating Activities	<u>\$ (1,021,289)</u>

See Accompanying Notes to the Basic Financial Statements

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**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Note 1 - Description of the School

Columbus Humanities, Arts & Technology Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of four academic years commencing after July 1, 2004 and ending June 30, 2008. At the end of the original contract period, the Academy's contract with Ohio Council of Community Schools was renewed for a ten year term and is set to expire on June 30, 2013. 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 of the 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 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.

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 HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(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, 2011.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2011, 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 2011 consisted primarily of instructional and administrative furniture and 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.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital assets, except land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Leasehold Improvements	Remaining life of lease
Furniture, Fixtures, 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.

The statement of net assets reports \$2,365 of restricted net assets related to federal grant distributions and \$4,173 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 99% 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 2011 that would have a material effect on the financial statements.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(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, 2011, the bank balance of the Academy's deposits was \$139,452. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2011, the Academy had intergovernmental receivables, in the amount of \$164,275. The receivables are expected to be collected within one year.

Grant	Amount
Title I ARRA	\$ 122,312
Special Education Grants	13,345
Race to the Top Grant	9,454
School Counselor Grant	7,799
Food Service	7,162
Improve Teacher Quality Grants	2,267
Title I A	1,936
Total Intergovernmental Receivables	\$164,275

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Depreciable Capital Assets:				
Leasehold Improvements	\$8,424	\$0	\$0	\$8,424
Furniture & Equipment	71,253	0	0	71,253
Total at Historical Cost	79,677	0	0	79,677
Less Accumulated Depreciation:				
Building/Improvements	(1,204)	(602)	0	(1,806)
Furniture & Equipment	(41,390)	(11,945)	0	(53,335)
Capital Assets, Net	\$37,083	(\$12,547)	\$0	\$24,536

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

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 2011, the Academy contracted with Pashley Insurance Agency for insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

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	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Buildings	6,950,000
Business Personal Property	607,800
Excess/Umbrella Liability:	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

Note 8 – Purchased Services

For the fiscal year ended June 30, 2011, purchased service expenses were as follows:

Purchased Services	Amount
Personnel Services	\$1,814,911
Staff and Administrative Services	467,057
Food Service	204,550
Building Services	184,259
Student Services	124,879
Sponsor Services	45,674
Advertising	34,920
Professional Services	19,491
Total	\$2,895,741

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(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 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 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 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 2011, 11.81 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, 2011, 2010 and 2009 were \$17,912, \$30,567 and \$23,880, respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

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.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(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, 2011, 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 2010, 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, 2011, 2010, and 2009 were \$151,016, \$132,416 and \$138,792, respectively; 83 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were made by the Academy.

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, 2011, 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.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(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 2011, 1.43 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, 2011, 2010 and 2009 were \$2,169, \$1,200 and \$10,897, respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, 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, 2011, 2010 and 2009 were \$1,153, \$1,823 and \$1,721, respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

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 2011, 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, 2011, 2010 and 2009 were \$11,617, \$10,186 and \$10,676, respectively; 83 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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, 2011.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 11 – Contingencies (Continued)

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 for 2011 identified an overpayment of Foundation funding in the amount of \$2,229. This amount is recognized as a Deferred Revenue and will be paid in fiscal year 2012.

Note 12 – Building Leases

The Academy has entered into a lease for the period from July 1, 2007 through June 30, 2022 with EFA Company, LLC a wholly owned subsidiary of Mosaica Education, Inc. for the use of the Academy's building as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 16. Rents for 2010-11 totaled \$819,116. The lease is a triple net lease with base rent at \$62,788 per month and annual property taxes of \$68,122 passed through to the Academy. There are scheduled inflationary rent adjustments of 2% effective September 1 of each year. The lease also stipulates that renovation investments in the building by the owner will cause the base rent to increase as renovation costs are paid. During fiscal 2011, the owner invested no additional renovation funds in the property.

The following is a schedule of the future minimum payments for base rent required under the lease as of June 30, 2011 (does not include additional building investments by the owner / landlord or facility costs pass-throughs):

Fiscal Year Ending June 30	Amount
2012	766,015
2013	781,336
2014	796,962
2015	812,902
2016	829,160
2017-2021	4,401,274
2022	933,774
Total minimum lease payments	\$9,321,423

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2011 were as follows:

	Balance 6/30/2010	Additions	Reductions	Balance 6/30/2011	Amount Due Within One Year
Mosaica Education Promissory Notes	\$2,438,148	\$0	(\$71,361)	\$2,366,787	\$77,849
Capital Leases Payable	32,701	0	(12,338)	20,363	13,315
Long-Term Obligations	\$2,470,849	\$0	(\$83,699)	\$2,387,150	\$91,164

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 13 – Long-Term Obligations (Continued)

Mosaica Education, Inc. Promissory Note - On June 21, 2007 the Academy entered into a promissory note for outstanding payables that had accumulated. The promissory note has an interest rate of 9.0 percent and matured in fiscal year 2012. In July 2009, the Academy retired the balance of this note and issued a new note in the amount of \$2,204,603 at an interest rate of 7% to provide long term financing for outstanding payables that had accumulated. The quarterly scheduled payments increase over the term of the note ranging from \$15,000 to \$180,000 through maturity on September 15, 2020. Scheduled quarterly installments in fiscal 2012 total \$25,000 per quarter. Quarterly installments are first applied against unpaid interest and any remaining amount to principal. The outstanding principal balance on this note at June 30, 2011 was \$2,204,603.

In addition, in July 2009, the Academy executed a non-interest bearing \$300,000 promissory note payable to its management company to reimburse it for organizational and development costs incurred during the pre-opening stage of the Academy. The note is payable in monthly installments of \$6,487 through maturity on June 15, 2013. The outstanding principal balance on this note at June 30, 2011 was \$162,184.

There is no prepayment penalty for either promissory note.

The principal and interest requirements to retire the promissory notes with Mosaica Education, Inc. outstanding at June 30, 2011, were as follows:

Fiscal Year Ending June 30	Promissory Notes	
	Principal	Interest
2012	77,849	174,436
2013	77,844	178,191
2014	0	177,374
2015	0	170,749
2016	101,521	157,900
Thereafter	2,109,573	363,403
Total	\$2,366,787	\$1,222,053

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into capitalized leases for the use of computer equipment and furniture. 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 retirements in 2011 were \$12,338.

	Amount
Property under Capital Lease	\$71,253
Less Accumulated Depreciation	(53,335)
Total June 30, 2011	\$17,918

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, 2011.

Capital Lease		
Fiscal Year Ending	Principal	Interest
June 30		
2012	13,315	1,013
2013	7,048	113
Total	\$20,363	\$1,126

Note 15 –Tax Exempt Status

In March 2010, the Academy received notification from the Internal Revenue Service that its application for tax exemption under section 501 (c)(3) of the Internal Revenue Code has been approved with an effective date of exemption of March 17, 2004.

Note 16 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for variety of services including management of personnel and human resources, board relations, financial management, marketing, technology services, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement, 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 2011 was \$438,918.

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 2011 were \$2,119,804

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

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

At June 30, 2011, the Academy had payables to Mosaica Education, Inc. in the amount of \$1,956,183.

The following is a schedule of payables to Mosaica Education, Inc.

	<u>Amount</u>
Payroll	\$778,791
Management Fee	223,408
Building and Equipment Rent	313,940
Real Estate Tax Passthru on Facility Lease	290,681
Interest/Finance Charges	327,202
Miscellaneous	<u>22,161</u>
Total June 30, 2011	<u><u>\$1,956,183</u></u>

Note 17 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools Council (the Sponsor). As part of this contract, the Sponsor is entitled to a maximum of 2% of all revenues. Total amount due and paid for fiscal year 2011 was \$45,674.

Note 18 – Management’s Plan

For fiscal year 2011, the Academy had an operating loss of \$1,573,098, a net loss of \$611,970, and net asset deficit of \$4,177,234. Projected revenues and expenses for fiscal year 2012 indicate these financial difficulties will not be alleviated during fiscal year 2012. As of January 31, 2012, the latest information available, the Academy’s change in net assets was (\$295,298) and net asset deficit was (\$4,472,532). In addition, the Academy is projecting a deficit net asset balance at June 30, 2012 of \$4,014,989 on the five year forecast filed with the Ohio Department of Education on October 31, 2011.

Final full-time equivalent student enrollment at June 30, 2011 and 2010 was 367 and 368, respectively. Current full-time equivalent student enrollment as of January 2012 is 340 students. Capacity of the facility is approximately 750 students.

The Board continues to work with Mosaica to explore all means available to increase enrollment in the school and to exercise expense control procedures to reduce the operating deficiency. Management plans to continue efforts to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents. Higher enrollment will help reduce future deficits and operating losses.

**COLUMBUS HUMANITIES ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Non-Cash Assistance (Food Distribution)			
National School Lunch Program	10.555	\$ 4,391	\$ 4,391
Cash Assistance			
Federal School Breakfast Program	10.553	68,515	68,515
National School Lunch Program	10.555	<u>155,291</u>	<u>155,291</u>
Total U.S. Department of Agriculture		<u>228,197</u>	<u>228,197</u>
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>			
Title I Cluster:			
Title I Grants to Local Educational Agencies	84.010	332,438	416,083
ARRA - Title I Grants to Local Educational Agencies	84.389	<u>248,643</u>	<u>235,166</u>
Total Title I Cluster		<u>581,081</u>	<u>651,249</u>
Special Education Cluster			
Special Education Grants to States	84.027	54,092	63,768
ARRA - Special Education Grants to States	84.391	<u>62,613</u>	<u>51,255</u>
Total Special Education Cluster		<u>116,705</u>	<u>115,023</u>
Safe and Drug Free School and Communities State Grants	84.186	3,172	2,403
Educational Technology State Grants	84.318	4,059	1,906
Improving Teacher Quality State Grants	84.367	6,229	8,496
ARRA - State Fiscal Stabilization Fund	84.394	<u>195,148</u>	<u>195,148</u>
Total U.S. Department of Education		<u>906,394</u>	<u>974,225</u>
Total Federal Awards		<u>\$ 1,134,591</u>	<u>\$ 1,202,422</u>

The accompanying notes are an integral part of this schedule.

**COLUMBUS HUMANITIES ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Columbus Humanities Arts & Technology (the Academy's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The Academy reports commodities consumed on the Schedule at the entitlement value. The Academy allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



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*

Columbus Humanities Arts and Technology Academy
Franklin County
1333 Morse Road
Columbus, Ohio 43229

To the Board of Directors:

We have audited the basic financial statements of Columbus Humanities Arts and Technology Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated March 12, 2012, 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 Academy'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*.

Columbus Humanities Arts and Technology 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 March 12, 2012.

We intend this report solely for the information and use of management, the audit committee, the Board of Directors, the Ohio Council of Community Schools, federal awarding agencies and pass-through entities 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

March 12, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Columbus Humanities Arts and Technology Academy
Franklin County
1333 Morse Road
Columbus, Ohio 43229

To the Board of Directors:

Compliance

We have audited the compliance of Columbus Humanities Arts and Technology Academy, Franklin County, Ohio (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 could directly and materially affect Columbus Humanities Arts and Technology Academy's major federal program for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal program. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with these requirements.

In our opinion, Columbus Humanities Arts and Technology Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect the its major federal program for the year ended June 30, 2011.

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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2011-001. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Academy's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated March 12, 2012.

We intend this report solely for the information and use of the audit committee, management, Board of Directors, the Ohio Council of Community Schools, others within the Academy, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

March 12, 2012

**COLUMBUS HUMANITIES ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any 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)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010 and 84.389 - Title I Grants to Local Educational Agencies Cluster
(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**

None

**COLUMBUS HUMANITIES ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(CONTINUED)**

3. FINDINGS FOR FEDERAL AWARDS

1. Allowable Cost and Allowable Activity

Finding Number	2011-001
CFDA Title and Number	Title I Grants to Local Educational Agencies – CFDA #84.010 and 84.389
Federal Award Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Significant Deficiency

The Academy has established internal control procedures to ensure that all expenditures related to Title I are for activities allowed and are for allowable costs based on the grant agreements and 2 CFR Part 225. The Board of Directors of the Academy contract with Mosaica Education, Inc. for the operations at the School, including the management and administration of federal grant funds. Procedures implemented by Mosaica Education, Inc. include monitoring all expenditures billed to Academy for activities outlined in the grant agreements. This authorization occurs through the Chief Administrative Officer (CAO) initialing the invoice and stating the appropriate account code the expenditures should be expensed.

Twenty-two percent of the disbursements tested did not contain the CAO's initials or what account code the expenditures should be expensed indicating that the expenditures relate to the purposes of the Title I grant.

Failure to review and properly authorize invoices prior to being paid could result in unallowable expenditures being paid from the Title I Grant.

The Board of Director's should ensure Mosaica Education, Inc. has implemented and follow internal control procedures in place to ensure all costs of the Title I Grant are allowable by reviewing and signing off on all supporting documentation of expenditures incurred.

Official's Response:

Management recognizes the importance of proper authorization controls and believes the invoices in question were processed during a transition period between CAOs. Management will review authorization controls and reinforce the understanding of controls, with a special focus on how to address a vacancy in a position with transaction authorization authority, with staff involved in the purchasing/vendor payment cycles.



Dave Yost • Auditor of State

COLUMBUS HUMANITIES ARTS AND TECHNOLOGY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2012**