



Dave Yost • Auditor of State

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Preparatory 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 (\$3,494,362) and operating loss (\$1,748,720) 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 February 10, 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 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 statement 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

February 10, 2012

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

The discussion and analysis of the Columbus Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 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 seventh year of operation during fiscal year 2011 serving grades kindergarten through eighth grade. Enrollment varied during the year but finished with 642 students, a 2 student increase from fiscal year end 2010.

Key highlights for fiscal year 2011 are as follows:

- Net assets decreased \$419,100 as compared to \$841,138 in the prior fiscal year.
- The Academy had an operating loss of \$1,748,720 as compared to an operating loss of \$2,167,540 in the prior fiscal year.
- The operating loss for fiscal 2011 was alleviated by \$1,481,677 of Federal and State Restricted Grants.

Overview of the Financial Statements

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

Financial Analysis of the Academy as a Whole

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 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	\$64,798	\$244,723	(\$179,925)
Capital Assets	317,582	169,437	148,145
Total Assets	<u>382,380</u>	<u>414,160</u>	<u>(31,780)</u>
<u>Liabilities:</u>			
Current Liabilities	3,577,583	2,467,962	1,109,621
Long-Term Liabilities	299,159	1,021,460	(722,301)
Total Liabilities	<u>3,876,742</u>	<u>3,489,422</u>	<u>387,320</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	193,087	18,110	174,977
Restricted for Other Purposes	137	31	106
Unrestricted	(3,687,586)	(3,093,403)	(594,183)
Total Net Assets	<u>(\$3,494,362)</u>	<u>(\$3,075,262)</u>	<u>(\$419,100)</u>

Total net assets decreased \$419,100. The cause of the decrease was the Board's recognition of the need to continue to offer programming that would accelerate learning of underperforming students faster than the traditional single grade level gains. The goal of the Board and management is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. Enrollment at the end of fiscal 2011 was 642 students, a slight increase of students from fiscal year end 2010. The capacity of the current facility is approximately 725 students. This includes a recent renovation of the second floor that expanded the enrollment capacity by approximately 50 students. For the fall of fiscal year 2012, the Academy's enrollment is 655 students.

Based on continued analysis of enrollment data, the Board and its management are committed to following the plan to invest in the future of the children of this community, not based on a plan that is expected to generate economic profits, but rather on a plan that is economically sustainable over the long term and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs are being made available by delaying payment on invoices from the Academy's management company for certain rent, management services, operating expenses and personnel services.

**COLUMBUS PREPARATORY 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.

	<u>2011</u>	<u>2010</u>	<u>Change</u>
<u>Operating Revenues:</u>			
Foundation	\$3,883,647	\$3,766,982	\$116,665
Charges for Services	88,901	44,458	44,443
Miscellaneous	2,339	23,405	(21,066)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	1,481,677	1,489,387	(7,710)
Total Revenues	<u>\$5,456,564</u>	<u>\$5,324,232</u>	<u>\$132,332</u>
<u>Operating Expenses:</u>			
Building	1,084,546	1,047,798	36,748
Purchased Services	4,289,642	4,586,471	(296,829)
Depreciation	36,302	42,395	(6,093)
General Supplies	250,003	265,562	(15,559)
Other Operating Expense	63,114	60,159	2,955
<u>Non-Operating Expenses:</u>			
Interest	152,057	162,985	(10,928)
Total Expenses	<u>\$5,875,664</u>	<u>\$6,165,370</u>	<u>(\$289,706)</u>
Total Increase (Decrease) in Net Assets	<u>(\$419,100)</u>	<u>(\$841,138)</u>	<u>\$422,038</u>

Fiscal year 2011 showed an increase in revenues primarily due to Federal stimulus funds being included in State Foundation funding. Furthermore, expenses decreased primarily due to the Academy's fiscal 2010 recognition of \$300,000 of organizational and development costs incurred during the pre-opening stage of the Academy.

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 PREPARATORY 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 \$193,087 invested in capital assets (net of accumulated depreciation and related capital leases payable) for computer and other equipment, and leasehold improvements, an increase of \$174,977. The following table shows fiscal year 2011 compared to 2010:

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Computers	\$6,264	\$9,396	(\$3,132)
Furniture & Equipment	28,853	32,742	(3,889)
Food Service Equipment	4,773	5,382	(609)
Leasehold Improvements	<u>277,692</u>	<u>121,917</u>	<u>155,775</u>
Total Capital Assets - net	317,582	169,437	148,145
Capital Leases Payable	<u>124,495</u>	<u>151,327</u>	<u>(26,832)</u>
Invested in Capital Assets, Net of Related Debt	<u><u>\$193,087</u></u>	<u><u>\$18,110</u></u>	<u><u>\$174,977</u></u>

The increase in Leasehold Improvements primarily represents the Academy's renovation of the second floor thereby expanding available classroom space for an additional 50 students. 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 \$1,021,460 in notes and capital leases outstanding, of which \$58,670 is due within one year. The following table summarized the Academy's debt outstanding as of June 30, 2011.

Outstanding Debt, at Year End

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Capital Leases Payable	\$124,495	\$151,328	(\$26,833)
Mosaica Education Promissionary Notes	896,965	930,298	(33,333)
Total	<u><u>\$1,021,460</u></u>	<u><u>\$1,081,626</u></u>	<u><u>(\$60,166)</u></u>

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

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, decisions or conditions that have 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 \$200,000 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.

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 for Columbus Preparatory Academy, 3333 Chippewa Street, Columbus, Ohio 43204.

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Assets:

Current assets:

Cash and Cash Equivalents	\$ 18,287
Accounts Receivable	398
Intergovernmental Receivable	41,278
Prepaid Expense	<u>4,835</u>
Total current assets	<u><u>64,798</u></u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	<u>317,582</u>
Total assets	<u><u>382,380</u></u>

Liabilities:

Current Liabilities:

Accounts Payable, Trade	169,350
Accounts Payable, Related Party	2,684,970
Accrued Interest	962
Current Portion of Long-term Debt	<u>722,301</u>
Total current liabilities	<u><u>3,577,583</u></u>

Noncurrent liabilities:

Non Current Portion of Long-term Debt	<u>299,159</u>
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Total liabilities	<u><u>3,876,742</u></u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	193,087
Restricted Net Assets	137
Unrestricted Net Assets	<u>(3,687,586)</u>
Total Net Assets	<u><u>\$ (3,494,362)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Operating Revenues:	
Community School Foundation	\$ 3,883,647
Charges for Services	88,901
Miscellaneous	2,339
Total Operating Revenues	<u>3,974,887</u>
 Operating Expenses:	
Building	1,084,546
Purchased Services	4,289,642
Depreciation	36,302
General Supplies	250,003
Other Operating Expenses	63,114
Total Operating Expenses	<u>5,723,607</u>
 Operating Loss	 <u>(1,748,720)</u>
 Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	1,481,677
Interest Expense	(152,057)
Total Nonoperating Revenues and Expenses	<u>1,329,620</u>
 Change in Net Assets	 (419,100)
Net Assets (Deficit) Beginning of Year	<u>(3,075,262)</u>
Net Assets (Deficit) End of Year	<u><u>\$ (3,494,362)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 3,869,871
Charges for Services	96,196
Other Operating Receipts	2,339
Cash Payments to Suppliers for Goods and Services	<u>(5,317,462)</u>
Net Cash Used For Operating Activities	<u>(1,349,056)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short-term Financing Payments	(50,796)
Start-Up Note Payable Principal Retirement	(33,333)
Federal and State Grant Receipts	<u>1,615,298</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,531,169</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Assets	(184,447)
Capital Lease Interest Payments	(12,895)
Capital Lease Principal Retirement	<u>(26,833)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(224,175)</u>

Net Decrease in Cash and Cash Equivalents	(42,062)
Cash and Cash Equivalents - Beginning of the Year	<u>60,349</u>
Cash and Cash Equivalents - Ending of the Year	<u><u>18,287</u></u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	<u>(1,748,720)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	36,302
Changes in assets and liabilities:	
Increase in Receivables	9,079
Increase in Prepaid Expense	(4,835)
Increase in Accounts Payable, Trade	(68,764)
Increase in Accounts Payable, Related Party	427,882
Net Cash Used for Operating Activities	<u><u>\$ (1,349,056)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 1 - Description of the School

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

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of four academic years commencing after July 1, 2004 and ending June 30, 2008 and subsequently renewed for a ten year term set to expire on June 30, 2018. 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 Columbus 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.

B. Measurement Focus

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 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 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 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 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

G. 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>
Computers, Furniture and Equipment	5-20 years
Leasehold Improvements	Remaining term of lease

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2011, there was \$137 of net asset restriction imposed by grantors.

The statement of net assets reports \$193,087 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 98% 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 fiscal 2011 that would have a material effect on the financial statements.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 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 Academy's deposits was \$86,145. 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 \$41,278. The receivables are expected to be collected within one year.

Grant	Amount
State Foundation Adjustment	\$ 21,283
School Counselor Grant	9,735
National School Lunch Program	7,472
Special Ed Grants	2,788
Total Intergovernmental Receivables	\$ 41,278

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
Furniture & Equipment	\$ 44,996	\$ -	\$ -	\$ 44,996
Computers	208,010	-	-	208,010
Leasehold Improvements	133,000	184,447	-	317,447
Total Capital Assets	386,006	184,447	-	570,453
Less Accumulated Depreciation	(216,569)	(36,302)	-	(252,871)
Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 169,437	\$ 148,145	\$ -	\$ 317,582

**COLUMBUS PREPARATORY 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 personnel; and natural disasters. During fiscal year 2011, the Academy contracted with Pashley Insurance Agency to obtain insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

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:	
Bodily Injury Limit	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	8,000,000
Aggregate Limit	8,000,000
Excess/Umbrella Liability:	
Building&BPP	8,896,500

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

Note 8 – Purchased Services

For the period July 1, 2010 through June 30, 2011, purchased service expenses were as follows:

Purchased Service	Amount
Personnel Services	\$2,810,376
Instructional and Administrative Services	703,428
Food Service	312,376
Building Services	288,293
Sponsor Services	77,397
Student Services	67,551
Professional Services	19,664
Advertising	10,557
Total	<u><u>\$4,289,642</u></u>

**COLUMBUS PREPARATORY 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 School as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board, The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2011, 2010 and 2009 were \$30,745, \$40,981 and \$33,542, respectively; which equaled the required contributions each year.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio issues a stand-alone financial report. Copies of the STRS Ohio's 2011 *Comprehensive Annual Financial Report* can be requested in writing to STRS Ohio, 275 E Broad St, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or visiting the STRS Ohio website at www.strsoh.org.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state of any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**COLUMBUS PREPARATORY 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)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-value purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 and 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested for the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balances. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a members on or after age 60. The defined contributions portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members’ beneficiaries.

Funding Policy – Chapter 3307 of the Revised Code provides statutory authority for members and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

**COLUMBUS PREPARATORY 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)

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011, were 10% of covered payroll for members and 14% for employers. Employer contributions actually paid should be disclosed in both dollar amounts and as a percentage of the employer's covered payroll for the current year and the two preceding years. Member and employer contributions actually made for DC and Combined Plan participants will be provided upon written request.

The Academy required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, 2009 were \$238,865, \$225,670, and \$200,075 respectively; 84% 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.

Note 10 – Postemployment Benefits

A. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium of the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2011, the actuarially required allocation is .76%. The Academy's contributions for the years ended June 30, 2011, 2010, and 2009 were \$1,979, \$2,448, and \$2,417, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 10 – Postemployment Benefits (Continued)

A. School Employees Retirement System (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2011, 2010, and 2009 were \$3,723, \$1,608, and \$15,306, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare Part B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associate health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2011, 2010, and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 10 – Postemployment Benefits (Continued)

B. State Teachers Retirement System (Continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$18,374, \$17,359, and \$15,390, respectively; 84% has been contributed for fiscal year 2011 and 100% 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 affect on the overall financial position of the Academy at June 30, 2011.

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 could result in state funding being adjusted. An audit of the 2010-11 school year indicated that the Academy was underfunded \$21,283. This amount is included in Intergovernmental Receivables (see Note 5).

Note 12 – Building Leases

The Academy has entered into a lease for the period from January 2005 through December 2019 with EFA Company, LLC a wholly owned subsidiary of Mosaica Education, Inc. for the use of the main building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 16. Net occupancy costs incurred totaled \$1,084,546 for the fiscal year. Under the lease agreement, the Academy is responsible for paying all utilities, maintenance and repairs, and applicable property taxes. The following summarizes the occupancy costs for the Academy:

Base rent	\$872,292
Property taxes	<u>212,254</u>
Net Occupancy Costs	<u>\$1,084,546</u>

There are scheduled inflationary rent adjustments (lesser of 5% or CPI factor) effective January 1 once every two years. The lease also stipulates that renovation investments in the building by the owner will cause the rent to increase by an annual factor of 9.25% - 10% of the investment. During fiscal 2011, the owner invested no funds into the property.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 12 – Building Leases (Continued)

The following is a schedule of the future minimum payments for base rent required under the lease (assuming a 5% increase every 2nd year) as of June 30, 2011 (does not include additional building investments by the owner / landlord or facility costs passthroughs):

Fiscal Year Ending June 30	Amount
2012	\$ 893,563
2013	919,625
2014	938,241
2015	965,607
2016	985,153
2017-2020	3,620,510
Total minimum lease payments	<u>\$ 8,322,699</u>

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, Inc. Promissory Note	\$930,298	\$0	(\$33,333)	\$896,965	\$696,964
Capital Leases Payable	151,328	0	(26,833)	124,495	25,337
Long-Term Obligations	<u>\$1,081,626</u>	<u>\$0</u>	<u>(\$60,166)</u>	<u>\$1,021,460</u>	<u>\$722,301</u>

Mosaica Education, Inc. Promissory Note- On December 7, 2005, the Academy entered into a \$763,631 promissory note with Mosaica Education, Inc., a related party (see Note 16), for the outstanding accounts payables. The promissory note has an interest rate of 9.0 percent and matured in fiscal year 2011. The Academy has not made payments to Mosaica Education as outlined and agreed to in the promissory note agreement. No note extension has been executed. During fiscal year 2011 the Academy paid no funds against the outstanding principal balance. Furthermore, no principal retirement is projected for fiscal year 2012. The outstanding principal balance at June 30, 2011 and 2010 was \$663,631. Interest expense incurred on this promissory note for the fiscal years ended June 30, 2011 and 2010 was \$59,727 and \$59,727, respectively.

Mosaica Education, Inc. Promissory Note- In July 2009, the Academy executed a non-interest bearing \$300,000 promissory note payable to Mosaica Education, Inc., a related party (see Note 16), to reimburse Mosaica for organizational and development costs incurred during the pre-opening stage of the Academy. The note is payable in 108 equal monthly installments of \$2,778 with a final installment due in June 2018.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 13 – Long-Term Obligations (Continued)

The following is a schedule of remaining debt service on the 2009 Mosaica Promissory Note:

<u>Fiscal Year ending</u>	<u>Installments</u>
June 30, 2012	33,333
June 30, 2013	33,333
June 30, 2014	33,333
June 30, 2015	33,333
June 30, 2016	33,333
June 30, 2017 thru 2018	<u>66,666</u>
Total Payments	233,331

Note 14 – Capital Lease-Lessee Disclosure

In fiscal year 2009, the Academy entered into two capitalized leases for the purchase of: HVAC unit, computer equipment, software, furnishings and classroom supplies. The leases 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. The equipment has been capitalized in the amount of \$187,562, the present value of the minimum lease payments at the inception of the lease. The lease terms range from 60 to 84 months with a combined monthly base payment of \$2,982. The following is a schedule of the future minimum lease payments required under the capital leases:

Year Ending	Base Payments
<u>June 30,</u>	<u>Required</u>
2012	35,790
2013	35,790
2014	29,818
2015	25,552
2016	25,552
Thereafter	<u>-0-</u>
Total future minimum lease payments	\$152,502
Less: amount representing interest	<u>(28,007)</u>
Present value of future minimum lease payments	<u>\$124,495</u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 14 – Capital Lease-Lessee Disclosure (Continued)

The following summarizes the capital lease activity for the year ended June 30, 2011:

	Amount
Capital Leases Payable - June 30, 2010	\$151,328
Add: Capital Lease additions	0
Less: Capital Lease principal paydowns	(26,833)
Capital Leases Payable - June 30, 2011	\$124,495

Note 15 –Tax Exempt Status

In November 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 statements, budgeting, 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 \$677,665.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual cost incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries, of Mosaica Education, Inc employees working at the Academy, and other costs related to providing educational and administration services. The total expenses paid to Mosaica Education Inc. during fiscal year 2011 were \$3,490,457.

At June 30, 2011, the Academy had payables to Mosaica Education, Inc. in the amount of \$2,684,970. The following is a schedule of payables owed to Mosaica Education, Inc.

	Amount
Building Rent and Tax Passthrough	\$1,370,881
Payroll	842,364
Management Fees	203,999
Interest / Finance Charges	248,121
Other	19,605
Total at June 30, 2011	\$ 2,684,970

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 17 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) through June 30, 2018. 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 \$77,397.

Note 18 – Management’s Plan

For fiscal year 2011, the Academy had an operating loss of \$1,748,720, a decrease in net assets of \$419,100, and a cumulative net asset deficit of \$3,494,362. As of January 31, 2012 the Academy’s change in net assets was (\$37,433) and net asset deficit was (\$3,531,795). In addition, the Academy is projecting a deficit net asset balance at June 30, 2012 of \$3,132,039 on the five year forecast filed with the Ohio Department of Education on October 31, 2011.

Final full-time equivalent students were 642 and 640 students for the fiscal years ending June 30, 2011 and 2010, respectively. Current full-time equivalent student enrollment as of January 2012 is 640 students. Management plans to continue to increase enrollment through active advertising via print, radio, mailings, and through referrals of current parents which will help achieve enrollment closer to the capacity of the facility which, in turn, will generate future surpluses.

In addition, recent changes in property tax legislation have removed the obligation of future real estate tax assessments by Franklin County payable by the Academy under its facility lease. This change is expected to result in annual savings in excess of \$200,000 for the Academy.

Furthermore, management has completed renovations to the second floor of the facility thereby expanding classroom space to allow for more students. The renovated second floor was put into service in the fall of 2010.

Finally, the Board is actively engaged in an effort to secure financing to purchase the Columbus Preparatory Academy building. It is expected that the terms of the financing would free up resources that are currently absorbed through rent. Cumulatively, these efforts will enable the school to enter into a substantially stronger fiscal condition.

**COLUMBUS PREPARATORY 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	\$ 9,711	\$ 9,711
Cash Assistance			
Federal School Breakfast Program	10.553	61,852	61,852
National School Lunch Program	10.555	<u>221,756</u>	<u>221,756</u>
Total U.S. Department of Agriculture		<u>293,319</u>	<u>293,319</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	509,715	437,575
ARRA - Title I Grants to Local Educational Agencies	84.389	<u>211,784</u>	<u>185,156</u>
Total Title I Cluster		<u>721,499</u>	<u>622,731</u>
Special Education Cluster			
Special Education Grants to States	84.027	114,192	101,666
ARRA - Special Education Grants to States	84.391	<u>73,811</u>	<u>78,705</u>
Total Special Education Cluster		<u>188,003</u>	<u>180,371</u>
Safe and Drug Free School and Communities State Grants	84.186	1,835	275
Educational Technology State Grants	84.318	1,209	1,102
Improving Teacher Quality State Grants	84.367	15,937	15,400
ARRA - State Fiscal Stabilization Fund	84.394	<u>328,767</u>	<u>328,767</u>
Total U.S. Department of Education		<u>1,257,250</u>	<u>1,148,646</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 1,550,569</u></u>	<u><u>\$ 1,441,965</u></u>

The accompanying notes are an integral part of this schedule.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

The Academy reports commodities consumed on the Schedule at their entitlement value. The Academy allocated donated food commodities to the respective program that benefited 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 Preparatory Academy
Franklin County
3330 Chippewa Street
Columbus, Ohio 43204

To the Board of Directors:

We have audited the basic financial statements of Columbus Preparatory Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated February 10, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider a material weakness.

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 10, 2012.

The Academy's response to the finding identified in our audit 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 intend this report solely for the information and use of management, the Board of Directors, 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.



Dave Yost
Auditor of State

February 10, 2012



Dave Yost • Auditor of State

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

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

To the Board of Directors:

Compliance

We have audited the compliance of Columbus Preparatory Academy, 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 each of Columbus Preparatory Academy's major federal programs 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 programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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 Preparatory Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs 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 requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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.

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 would not necessarily 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.

We 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 February 10, 2012.

We intend this report solely for the information and use of management, Board of Directors, 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

February 10, 2012

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	84.010 and 84.389 – Title I Grants to Local Educational Agencies Cluster 84.394 – State Fiscal Stabilization Fund
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING 2011-001

Material Noncompliance/Material Weakness

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

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

FINDING 2011-001 (Continued)

Material Noncompliance/Material Weakness (continued)

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

The Academy has not made payments in accordance with the above payment schedule. As of June 30, 2011, the Academy has paid \$100,000 of the outstanding principal. Mosaica Education, Inc. does not consider the Academy to be in default and has allowed the Academy to make payments on the note as resources become available. As such, the Academy's Board of Directors and Mosaica Education, Inc. have verbally agreed to incorporate this promissory note into a new non-interest bearing note with an extended maturity date. However, no formal agreement has been executed as of June 30, 2011. Therefore the Academy is still bound by the terms of the original promissory note agreement. The outstanding balance of \$663,631 is a current liability at June 30, 2011 as the note fully matured in July 2010. Because the Academy anticipates no principal retirement for fiscal year 2012, the outstanding balance was incorrectly classified as a non-current liability on the June 30, 2011 financial statements. Consequently, an adjustment in the amount of \$663,631 was made to the June 30, 2011 financial statements in order to reflect the outstanding principal balance of the note as a current liability.

Also, failure to make the scheduled payments has resulted in the Academy incurring \$59,727 in interest expense each year for the years ended June 30, 2011 and 2010.

Although the Academy and Mosaica Education, Inc. have verbally agreed that Mosaica will not enforce the payment schedule in the promissory note agreement, by not having an amended promissory note agreement the Academy could be misinformed about what they are being charged in interest.

We recommend the Academy amend the current agreement for an updated payment schedule.

Official's Response:

While management recognizes the importance of paying installments in a timely manner in accordance with the terms of the loan agreements, cash flow has been rather tight as the school has continued to expand. The lender on the note being discussed is the school's management company and they have been flexible with regards to the payment schedule to ensure sufficient cash is available to process payments to staff and other local vendors in a timely manner. Management will continue to make payments on obligations to the lender as soon as cash flow becomes available in an effort to minimize carrying costs on current and long term liabilities. In addition, the Board is actively pursuing alternative arrangements related to its current cost structure that would be partially designed to enhance financial flexibility and allow for a more rapid liquidation of the outstanding balance.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Finding for Recovery Repaid Under Audit	Yes	N/A

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Columbus Preparatory Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated January 19, 2010, we noted the Board adopted an anti-harassment policy on October 18, 2007. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
2. The Board amended their policy on March 17, 2011. We read the amended policy, noting it now includes all the requirements listed in Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 10, 2012

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Dave Yost • Auditor of State

COLUMBUS PREPARATORY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2012**