

Columbus Preparatory Academy
Franklin County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2012



Dave Yost • Auditor of State

Board of Trustees
Columbus Preparatory Academy
3330 Chippewa Street
Columbus, Ohio 43204

We have reviewed the *Independent Auditor's Report* of the Columbus Preparatory Academy, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Columbus Preparatory Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

February 27, 2013

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets.....	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	13
Independent Auditor's Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	26
Independent Auditor's Report On Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance In Accordance With OMB Circular A-133	28
Schedule of Expenditures of Federal Awards.....	30
Notes to the Schedule of Expenditures of Federal Awards	31
Schedule of Findings and Questioned Costs	32
Schedule of Prior Audit Findings.....	33

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December 27, 2012

To the Board of Trustees
Columbus Preparatory Academy
Franklin County, Ohio
3330 Chippewa Street
Columbus, Ohio 43204

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Columbus Preparatory Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2012, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy, as of June 30, 2012, and the respective 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 (\$3,978,123) and change in net assets (\$483,761) 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 December 27, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the financial reporting 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 limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's financial statements. The schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Hea & Associates, Inc.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
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, 2012. 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 eighth year of operation during fiscal year 2012 serving grades kindergarten through eighth grade. Enrollment varied during the year but finished with 641 full time equivalent students, a slight decrease from fiscal year end 2011.

Key highlights for fiscal year 2012 are as follows:

- Net assets decreased \$483,761 as compared to \$419,100 in the prior fiscal year.
- The Academy had an operating loss of \$1,439,430 as compared to an operating loss of \$1,748,720 in the prior fiscal year.
- The operating loss for fiscal 2012 was alleviated by \$1,145,244 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, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets for 2012 compared to 2011:

Table 1
Net Assets

	2012	2011	Change
<u>Assets:</u>			
Current Assets	\$146,007	\$64,798	\$81,209
Capital Assets	282,181	317,582	(35,401)
Total Assets	<u>428,188</u>	<u>382,380</u>	<u>45,808</u>
<u>Liabilities:</u>			
Current Liabilities	4,168,383	3,577,583	590,800
Long-Term Liabilities	237,928	299,159	(61,231)
Total Liabilities	<u>4,406,311</u>	<u>3,876,742</u>	<u>529,569</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	183,022	193,087	(10,065)
Restricted for Other Purposes	12,782	137	12,645
Unrestricted	<u>(4,173,927)</u>	<u>(3,687,586)</u>	<u>(486,341)</u>
Total Net Assets	<u><u>(\$3,978,123)</u></u>	<u><u>(\$3,494,362)</u></u>	<u><u>(\$483,761)</u></u>

Total net assets decreased \$483,761. 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 2012 was 641 students, a slight decrease of students from fiscal year end 2011. 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 2013, the Academy's funded enrollment is 596 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, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2012 as compared to 2011:

Table 2
Change in Net Assets

	2012	2011	Change
<u>Operating Revenues:</u>			
Foundation	\$4,135,969	\$3,883,647	\$252,322
Charges for Services	71,330	88,901	(17,571)
Miscellaneous	10,463	2,339	8,124
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	1,145,244	1,481,677	(336,433)
Total Revenues	<u>5,363,006</u>	<u>5,456,564</u>	<u>(93,558)</u>
<u>Operating Expenses:</u>			
Salaries	176,022	0	176,022
Benefits	67,258	0	67,258
Building	1,056,519	1,084,546	(28,027)
Purchased Services	3,990,576	4,289,642	(299,066)
Depreciation	39,831	36,302	3,529
General Supplies	262,269	250,003	12,266
Other Operating Expense	64,717	63,114	1,603
<u>Non-Operating Expenses:</u>			
Interest	189,575	152,057	37,518
Total Expenses	<u>5,846,767</u>	<u>5,875,664</u>	<u>(28,897)</u>
Total Increase (Decrease) in Net Assets	<u>(\$483,761)</u>	<u>(\$419,100)</u>	<u>(\$64,661)</u>

Fiscal year 2012 showed a decrease in net revenue primarily due to Federal stimulus funds made available and substantially utilized in fiscal 2011.

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, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the Academy had \$183,022 invested in capital assets (net of accumulated depreciation and related capital leases payable) for computer and other equipment, a decrease of \$10,065. The following table shows fiscal year 2012 compared to 2011:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Computers	\$3,132	\$6,264	(\$3,132)
Furniture & Equipment	28,938	28,853	85
Food Service Equipment	4,163	4,773	(610)
Leasehold Improvements	<u>245,948</u>	<u>277,692</u>	<u>(31,744)</u>
 Total Capital Assets - net	 <u>282,181</u>	 <u>317,582</u>	 <u>(35,401)</u>
 Capital Leases Payable	 <u>99,159</u>	 <u>124,495</u>	 <u>(25,336)</u>
Invested in Capital Assets, net of related debt	<u><u>\$183,022</u></u>	<u><u>\$193,087</u></u>	<u><u>(\$10,065)</u></u>

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

Debt

At June 30, 2012, the Academy had \$962,790 in notes and capital leases outstanding, of which \$724,862 is due within one year. The following table summarizes the Academy's debt outstanding as of June 30, 2012:

	Outstanding Debt, at Year End		
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Capital Leases Payable	\$99,158	\$124,495	(\$25,337)
Mosaica Education Promissionary Notes	863,632	896,965	(33,333)
Total	<u><u>\$962,790</u></u>	<u><u>\$1,021,460</u></u>	<u><u>(\$58,670)</u></u>

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)*

Economic Factors

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

Operations

Columbus Preparatory Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades K-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.

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 the administrative offices of Columbus Preparatory Academy, 3330 Chippewa Street, Columbus, Ohio 43204.

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 27,487
Accounts Receivable	97,900
Intergovernmental Receivable	18,392
Prepaid Expense	2,228
Total current assets	<u>146,007</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	282,181
Total assets	<u>428,188</u>

Liabilities:

Current liabilities:

Accounts Payable, Trade	196,987
Accounts Payable, Related Party	3,238,263
Accrued Expenses	127
Deferred Revenue	8,144
Current Portion of Long-term Debt	724,862
Total current liabilities	<u>4,168,383</u>

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt	237,928
Total liabilities	<u>4,406,311</u>

Net Assets

Invested in Capital Assets, Net of Related Debt	183,022
Restricted Net Assets	12,782
Unrestricted Net Assets	(4,173,927)
Total Net Assets	<u>\$ (3,978,123)</u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

Operating Revenues:	
Community School Foundation	\$ 4,135,969
Charge for Services	71,330
Miscellaneous	10,463
Total Operating Revenues	<u>4,217,762</u>
Operating Expenses:	
Salaries	176,022
Benefits	67,258
Building	1,056,519
Purchased Services	3,990,576
Depreciation	39,831
General Supplies	262,269
Other Operating Expenses	64,717
Total Operating Expenses	<u>5,657,192</u>
Operating Loss	<u>(1,439,430)</u>
Nonoperating Revenues and (Expenses):	
Federal and State Restricted Grants	1,145,244
Interest Expense	(189,575)
Net Nonoperating Revenues and (Expenses)	<u>955,669</u>
Change in Net Assets	(483,761)
Net Assets Beginning of Year	<u>(3,494,362)</u>
Net Assets End of Year	<u><u>\$ (3,978,123)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES	
Foundation Receipts	\$ 4,144,113
Charge for Services	71,330
Other Operating Receipts	10,463
Cash Payments to Suppliers for Goods and Services	<u>(5,131,326)</u>
Net Cash Used for Operating Activities	<u>(905,420)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Short-term Financing Payments	(98,761)
Federal and State Grant Receipts	<u>1,142,225</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,043,464</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Note Payable Principal Retirement	(33,333)
Interest Payments	(70,174)
Capital Lease Principal Retirement	<u>(25,337)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(128,844)</u>
 Net Increase in Cash and Cash Equivalents	 9,200
Cash and Cash Equivalents - Beginning of the Year	<u>18,287</u>
Cash and Cash Equivalents - Ending of the Year	<u><u>\$ 27,487</u></u>
 Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	<u>\$ (1,439,430)</u>
 Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	39,831
Changes in assets and liabilities:	
Increase in Receivables	(97,502)
Decrease in Prepaid Expense	2,607
Increase in Accounts Payable, Trade	27,637
Increase in Accounts Payable, Related Party	553,293
Increase in Deferred Revenue	8,144
Net Cash Used for Operating Activities	<u><u>\$ (905,420)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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 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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(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, 2012.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2012, 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 2012 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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

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

<u>Description</u>	<u>Useful Lives</u>
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 the 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, 2012, there was \$12,782 of net assets restricted by grant agreements.

The statement of net assets reports \$183,022 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 2012 that would have a material effect on the financial statements.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(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, 2012 the book balance was \$27,487, and the bank balance of Academy's deposits was \$58,088. 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, 2012, the Academy had intergovernmental receivables, in the amount of \$18,392. The receivables are expected to be collected within one year.

Grant	Amount
Title I	\$ 20,094
Title II D	2,920
State Foundation Adjustment	(4,622)
Total Intergovernmental Receivables	\$ 18,392

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital Assets:				
Furniture & Equipment	\$ 44,996	\$ 4,430	\$ -	\$ 49,426
Computers	208,010	-	-	208,010
Leasehold Improvements	317,447	-	-	317,447
Total Capital Assets	570,453	4,430	-	574,883
Less Accumulated Depreciation:				
Furniture & Equipment	(11,371)	(4,954)	-	(16,325)
Computers	(201,746)	(3,132)	-	(204,878)
Leasehold Improvements	(39,754)	(31,745)	-	(71,499)
Total Accumulated Depreciation	(252,871)	(39,831)	-	(292,702)
Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 317,582	\$ (35,401)	\$ -	\$ 282,181

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(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 2012, the Academy contracted with Pashley Insurance Agency to obtain insurance coverage with the Hartford Casualty Insurance Company.

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, 2011 through June 30, 2012, purchased service expenses were as follows:

Purchased Services	<u>Amount</u>
Personnel Services	\$2,598,786
Instructional and Administrative Services	652,694
Building Services	316,788
Food Service	228,178
Sponsor Services	83,311
Student Services	66,945
Advertising	29,066
Professional Services	14,808
Total	<u><u>\$3,990,576</u></u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(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 (SERS), a cost-sharing multiple-employer 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 percent of their annual covered salary and the Academy is required to contribute 14 percent 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, 2012, the allocation to pension and death benefits is 12.7 percent. The remaining 1.3 percent of the 14 percent 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, 2012, 2011 and 2010 were \$33,701, \$33,062 and \$40,981, 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 2012 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 percent 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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(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; (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 percent 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 percent. An additional one-tenth of a percent is added to the calculation for every year of Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent 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 percent instead of 2.2 percent. 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 percent 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 percent 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 percent for members and 14 percent for employers.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(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, 2012, were 10 percent of covered payroll for members and 14 percent 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, 2012, 2011, 2010 were \$243,288, \$238,865 and \$225,670 respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010, respectively. Contributions to the DC and Combined Plans for fiscal year 2012 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 2012 was \$99 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 2012, the actuarially required allocation is .75 percent. The Academy's contributions for the years ended June 30, 2012, 2011, and 2010 were \$1,990, \$1,953 and \$2,445, 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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(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 percent contribution to Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55 percent. 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 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, 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, 2012, 2011, and 2010 were \$1,459, \$1,432 and \$1,608, 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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 10 – Postemployment Benefits (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2012, 2011, and 2010. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The Academy's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$18,714, \$18,374 and \$17,359, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010, respectively.

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, 2012.

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 2011-12 school year indicated that the Academy was overfunded by \$8,144. This amount is included in Deferred Revenue on the Academy's June 30, 2012 Statement of Net Assets.

C. Auditor of State Review

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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 \$1,056,519 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	\$893,567
Property taxes	162,952
Net Occupancy Costs	<u>\$1,056,519</u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 12 – Building Leases (Continued)

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 2012, the owner invested no funds into the property.

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, 2012 (does not include additional building investments by the owner / landlord or facility costs passthroughs):

Fiscal Year Ending June 30	Amount
2013	\$ 919,625
2014	938,241
2015	965,607
2016	985,153
2017	1,013,887
2018-2020	2,606,623
Total minimum lease payments	<u>\$ 7,429,136</u>

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2012 were as follows:

	Balance 6/30/2011	Additions	Reductions	Balance 6/30/2012	Amount Due Within One Year
Mosaica Education, Inc. Promissory Note	\$896,965	\$0	(\$33,333)	\$863,632	\$696,964
Capital Leases Payable	124,495	0	(25,337)	99,158	27,898
Long-Term Obligations	<u>\$1,021,460</u>	<u>\$0</u>	<u>(\$58,670)</u>	<u>\$962,790</u>	<u>\$724,862</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. No note extension has been executed. During fiscal year 2012 the Academy paid no funds against the outstanding principal balance. Furthermore, no principal retirement is projected for fiscal year 2013. As such, the entire outstanding balance of unpaid principal to date is classified as a current liability on the June 30, 2012 Statement of Net Assets. The outstanding principal balance at June 30, 2012 and 2011 was \$663,631. Interest expense incurred on this promissory note for the fiscal years ended June 30, 2012 and 2011 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. The outstanding principal balance at June 30, 2012 and 2011 was \$200,001 and \$233,224, respectively.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 14 – Capital Lease-Lessee Disclosure

In fiscal 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 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 June 30,	Base Payments Required
2013	\$ 35,790
2014	29,818
2015	25,552
2016	25,552
Total future minimum lease payments	116,712
Less: amount representing interest	(17,554)
Present value of future minimum lease payments	\$ 99,158

The following summarizes the capital lease activity for the year ended June 30, 2012:

	Amount
Capital Leases Payable - June 30, 2011	\$124,495
Add: Capital Lease additions	0
Less: Capital Lease principal paydowns	(25,337)
Capital Leases Payable - June 30, 2012	\$99,158

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's foundation and federal revenues, excluding amounts related to student lunches and breakfast. The management fee for fiscal year 2012 was \$627,301.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

Note 16 – Related Party Transactions/Management Company

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 billed by Mosaica Education Inc. during fiscal year 2012 were \$2,821,756.

At June 30, 2012, the Academy had payables to Mosaica Education, Inc. in the amount of \$3,238,263. The following is a schedule of payables owed to Mosaica Education, Inc.

	<u>Amount</u>
Building Rent and Tax Passthrough	\$ 1,691,424
Payroll	959,719
Management Fees	491,464
Interest / Finance Charges	72,456
Other	<u>23,200</u>
Total at June 30, 2012	<u>\$ 3,238,263</u>

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 2012 was \$83,311.

Note 18 – Management’s Plan

For fiscal year 2012, the Academy had an operating loss of \$1,439,430, a decrease in net assets of \$483,761, and a cumulative net asset deficit of \$3,978,123.

Final full-time equivalents students was 641 and 642 students for the fiscal years ending June 30, 2012 and 2011, respectively. Current full-time equivalent student enrollment as of November 2012 is 596 students. Management plans 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.

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.

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December 27, 2012

To the Board of Trustees
Columbus Preparatory Academy
Franklin County, Ohio
3330 Chippewa Street
Columbus, Ohio 43204

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Columbus Preparatory Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 27, 2012, wherein we noted the Academy had a deficit net asset balance and an operating loss as of June 30, 2012, and is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Academy is responsible for establishing and maintaining effective 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 expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. 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 corrected on a timely basis.

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.

Columbus Preparatory Academy
Franklin County, Ohio
Independent Auditors Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Columbus Preparatory Academy in a separate letter dated December 27, 2012.

This report is intended solely for the information and use of the Board of Trustees, federal awarding agencies and pass through agencies, management, and the Academy's sponsor, and is not intended to be and should not be used by anyone other than those specified parties

Rea & Associates, Inc.

December 27, 2012

To the Board of Trustees
Columbus Preparatory Academy
Franklin County, Ohio
3330 Chippewa Street
Columbus, Ohio 43204

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the 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 have a direct and material effect on its major federal program for the year ended June 30, 2012. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with 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 have a direct and material effect on a major federal program in order 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 expressing an opinion on the effectiveness of internal control over compliance.

Columbus Preparatory Academy
Franklin County, Ohio
Independent Auditor's Report on Compliance with
Requirements That Could Have a Direct and Material
Effect on Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133
Page 2

Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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.

This report is intended solely for the information and use of the Board of Trustees, federal awarding agencies and pass-through agencies, management and the Academy's sponsor, and is not intended to be and should not be used by anyone other than these specific parties.

Hea & Associates, Inc.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA #	Grant Year	Revenues	Expenses
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2012	\$ 417,847	\$ 404,943
Special Education IDEA Part B	84.027	2012	111,666	111,666
Title II-A Improving Teacher Quality	84.367	2012	5,434	5,434
ARRA - Race to the Top	84.395	2012	93,078	93,078
Ed Jobs	84.410	2012	243,280	243,280
<i>Total U.S. Department of Education</i>			<u>871,305</u>	<u>858,401</u>
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Cash Assistance:</i>				
School Breakfast Program	10.553	2012	44,333	44,333
National School Lunch Program (B)	10.555	2012	179,503	179,503
<i>Total Child Nutrition Cluster</i>			<u>223,836</u>	<u>223,836</u>
<i>Total U.S. Department of Agriculture</i>			<u>223,836</u>	<u>223,836</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,095,141</u>	<u>\$ 1,082,237</u>

The accompanying notes are an integral part of this schedule.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School's federal awards programs. This schedule has been prepared using the full accrual 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 - TRANSFERS

The School generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During fiscal year 2012, the ODE authorized the following transfers:

<u>CFDA Number / Grant Title</u>	<u>Grant Year</u>	<u>Transfer In</u>	<u>Transfer Out</u>
84.318 Title II-D Technology Literacy Challenge	2012	\$ 137	
84.318 Title II-D Technology Literacy Challenge	2011		\$ 137
		<u>\$ 137</u>	<u>\$ 137</u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , SECTION .505
FOR THE YEAR ENDED JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Ed Jobs Grant Title I Grant	CFDA# 84.410 84.010
(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 were noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None were noted.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2011-001	Material Noncompliance/Material Weakness - The academy failed to make payments in accordance to their promissory note schedule	No	Included in Management Letter



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 12, 2013**