

Cornerstone Academy
Franklin County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2012



Dave Yost • Auditor of State

Board of Trustees
Cornerstone Academy
6025 East Walnut Street
Westerville, Ohio 43081

We have reviewed the *Independent Auditor's Report* of the Cornerstone 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 Cornerstone 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

This page intentionally left blank.

**CORNERSTONE 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 | 8 |
| Statement of Revenues, Expenses and Changes in Net Assets..... | 9 |
| Statement of Cash Flows | 10 |
| Notes to the Basic Financial Statements | 11 |
| 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 | 25 |
| 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 | 27 |
| Schedule of Expenditures of Federal Awards..... | 29 |
| Notes to the Schedule of Expenditures of Federal Awards | 30 |
| Schedule of Findings and Questioned Costs | 31 |
| Independent Auditor's Report On Applying Agreed Upon Procedures | 32 |

This page intentionally left blank.

December 27, 2012

To the Board of Trustees
Cornerstone Academy
Franklin County, Ohio
6025 East Walnut Street
Westerville, Ohio 43081

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Cornerstone 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 (\$1,896,988) and change in net assets \$290,921 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.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012
UNAUDITED*

The discussion and analysis of the Cornerstone Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 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 fourth year of operations since emerging from a temporary voluntary suspension of operations during fiscal year 2008 serving Kindergarten through eighth grade. The Academy suspended operations during the period October 1, 2006 through June 30, 2007 and resumed operations July 1, 2007. Enrollment varied during fiscal year 2012 but averaged 458 students.

As of fiscal year ended June 30, 2012:

- Net Assets increased \$290,922.
- Operating Revenues accounted for \$3,050,959 of the Academy's total funding of \$3,653,957.
- The Academy had an operating loss of \$196,010, which was funded by non-operating federal grants. The Academy was able to utilize the federal grant allocations for fiscal year 2012.

Overview of the Financial Statements

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

Financial Analysis of the Academy as a Whole

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

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012
UNAUDITED*

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

Table 1
Net Assets

| | June 30, 2012 | June 30, 2011 | Change |
|---|----------------------|----------------------|------------------|
| <u>Assets:</u> | | | |
| Current Assets | \$126,881 | \$48,661 | \$78,220 |
| Capital Assets | 95,684 | 129,060 | (33,376) |
| Total Assets | <u>222,565</u> | <u>177,721</u> | <u>44,844</u> |
| <u>Liabilities:</u> | | | |
| Current Liabilities | 854,751 | 1,072,187 | (217,436) |
| Noncurrent Liabilities | 1,264,802 | 1,293,443 | (28,641) |
| Total Liabilities | <u>2,119,553</u> | <u>2,365,630</u> | <u>(246,077)</u> |
| <u>Net Assets:</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 41,118 | 43,939 | (2,821) |
| Restricted for Other Purposes | 0 | 1,167 | (1,167) |
| Unrestricted | (1,938,106) | (2,233,015) | 294,909 |
| Total Net Assets | <u>(\$1,896,988)</u> | <u>(\$2,187,909)</u> | <u>\$290,921</u> |

Results of fiscal year 2012 indicate an ending net asset deficit of \$1,896,988, a reduction of negative net assets of \$290,921 from fiscal year end 2011. One particular challenge the Academy has had over the past several years is growing the 1st through 8th enrollment population to move the school past the breakeven point. While the number of enrolled students has dramatically increased each year, there was a significant concentration of kindergarten students that were recruited to obtain that enrollment growth. The problem is that the funding for about two-third of those kindergarten students has been at half the regular funding rate because the students come from a district that only provides half day kindergarten instruction while the Academy provides full day kindergarten instruction. As those students move out of kindergarten to a fully funded fte, there will be significantly higher revenues with which to work. Enrollment for 2012 averaged 458 students, much closer to the capacity of the Academy's facility (approximately 475) than in previous years. As enrollment continues to remain near capacity of the facility, the Academy will generate annual surpluses to recover from prior net asset deficits. The Academy was able to make significant progress at reducing the negative net assets from prior year levels due to having a solid base of kindergarten students enrolling in the program and strong reenrollment of students in 1st grade and higher.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012
UNAUDITED*

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

Table 2
Change in Net Assets

| | Year ended June 30, 2012 | Year ended June 30, 2011 | Change |
|---|--------------------------------|--------------------------------|----------------------|
| <u>Operating Revenues:</u> | | | |
| Foundation | \$2,931,570 | \$2,298,062 | \$633,508 |
| Charges for Services | 116,025 | 127,534 | (11,509) |
| Miscellaneous | 3,364 | 16,692 | (13,328) |
| <u>Non-Operating Revenues:</u> | | | |
| Federal/State Restricted Grants | 602,998 | 541,884 | 61,114 |
| Total Revenues | <u>3,653,957</u> | <u>2,984,172</u> | <u>669,785</u> |
| <u>Operating Expenses:</u> | | | |
| Salaries | 112,305 | 0 | 112,305 |
| Benefits | 29,650 | 0 | 29,650 |
| Building | 479,633 | 676,333 | (196,700) |
| Purchased Services | 2,395,708 | 2,191,349 | 204,359 |
| Depreciation | 33,375 | 46,413 | (13,038) |
| General Supplies | 177,700 | 111,789 | 65,911 |
| Other Operating Expense | 18,598 | 21,267 | (2,669) |
| <u>Non-Operating Expenses:</u> | | | |
| Interest | 116,067 | 133,127 | (17,060) |
| Total Expenses | <u>3,363,036</u> | <u>3,180,278</u> | <u>182,758</u> |
| Total Increase (Decrease) in Net Assets | <u>\$290,921</u> | <u>(\$196,106)</u> | <u>\$487,027</u> |

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain management services, other operating expenses and invoices for payroll of Academy staff.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012
UNAUDITED*

Management expects enrollment to continue to grow at a significant pace as the Academy's large lower elementary students advance to fill spaces vacated by students that have graduated from 8th grade. By having high reenrollment rates and filling kindergarten sections each year, the Academy should be able to grow to capacity without having to recruit additional students for its additional grade levels. Management's goal is to operate at or near full enrollment capacity which will enable the Academy to achieve surpluses and eventually eliminate the current net asset deficit.

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012, the Academy had \$95,684 (net of accumulated depreciation) invested in capital assets. The following table summarizes Capital Asset activity for the fiscal year ended June 30, 2012:

| | <u>June 30, 2012</u> | <u>June 30, 2011</u> | <u>Increase (Decrease)</u> |
|--------------------------------|--------------------------|--------------------------|--------------------------------|
| Leasehold Improvements | \$34,783 | \$34,783 | \$0 |
| Less: Accumulated Amortization | (11,594) | (9,275) | (2,319) |
| | <u>23,189</u> | <u>25,508</u> | <u>(2,319)</u> |
| Computers | 97,388 | 97,388 | 0 |
| Less: Accumulated Depreciation | (95,689) | (92,290) | (3,399) |
| Net Capital Assets: | <u>1,699</u> | <u>5,098</u> | <u>(3,399)</u> |
| Furniture and Fixtures | 170,779 | 170,779 | 0 |
| Less: Accumulated Depreciation | (99,983) | (72,325) | (27,658) |
| Net Capital Assets: | <u>70,796</u> | <u>98,454</u> | <u>(27,658)</u> |
| Net Capital Assets | <u>\$95,684</u> | <u>\$129,060</u> | <u>(\$33,376)</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 \$54,567 of capital lease obligations for technology and furniture and fixtures outstanding. Of that amount \$28,642 is due within one year. In addition, the Academy executed a \$1,238,877 promissory note in 2011 payable to Mosaica Education, Inc., a related party (see note 16), to

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012
UNAUDITED*

finance outstanding invoices for services and/or reimbursable expenses over a multi-year term at a fixed rate of interest. No principal is due within one year. The following table summarizes the Academy's debt activity for the fiscal year ended June 30, 2012:

| | <u>Balance at June 30, 2011</u> | <u>New Borrowings</u> | <u>Principal Payments</u> | <u>Balance at June 30, 2012</u> |
|-------------------------|-------------------------------------|---------------------------|-------------------------------|-------------------------------------|
| Capital leases payable | \$85,120 | \$0 | \$30,553 | \$54,567 |
| Promissory note payable | <u>1,238,877</u> | <u>0</u> | <u>0</u> | <u>1,238,877</u> |
| Total debt payable | <u>\$1,323,997</u> | <u>\$0</u> | <u>\$30,553</u> | <u>\$1,293,444</u> |

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

Economic Factors

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

Operations

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

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact the administrative office for Cornerstone Academy at 6015 E. Walnut, Westerville, Ohio 43081.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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

Assets:

Current assets:

| | |
|------------------------------|----------------|
| Cash and Cash Equivalents | \$6,591 |
| Accounts Receivable | 88,687 |
| Intergovernmental Receivable | 28,999 |
| Prepaid Expense | 2,604 |
| Total current assets | <u>126,881</u> |

Noncurrent assets:

| | |
|---|----------------|
| Capital Assets, net of Accumulated Depreciation | 95,684 |
| Total assets | <u>222,565</u> |

Liabilities:

Current liabilities:

| | |
|-----------------------------------|----------------|
| Accounts Payable, Trade | 133,716 |
| Accounts Payable, Related Party | 686,467 |
| Accrued Liabilities | 206 |
| Deferred Revenues | 5,720 |
| Current Portion of Long-term Debt | 28,642 |
| Total current liabilities | <u>854,751</u> |

Noncurrent liabilities:

| | |
|--------------------------------------|------------------|
| Noncurrent Portion of Long-term Debt | 1,264,802 |
| Total noncurrent liabilities | <u>1,264,802</u> |

| | |
|--------------------------|------------------|
| Total liabilities | <u>2,119,553</u> |
|--------------------------|------------------|

Net Assets

| | |
|---|-----------------------------|
| Invested in Capital Assets, Net of Related Debt | 41,118 |
| Unrestricted Net Assets | (1,938,106) |
| Total Net Assets | <u><u>(\$1,896,988)</u></u> |

See Accompanying Notes to the Basic Financial Statements

**CORNERSTONE 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 | \$2,931,570 |
| Charge for Services | 116,025 |
| Miscellaneous | 3,364 |
| Total Operating Revenues | <u>3,050,959</u> |

Operating Expenses:

| | |
|---------------------------------|------------------|
| Salaries | 112,305 |
| Benefits | 29,650 |
| Building | 479,633 |
| Purchased Services | 2,395,708 |
| Depreciation | 33,375 |
| General Supplies | 177,700 |
| Other Operating Expenses | 18,598 |
| Total Operating Expenses | <u>3,246,969</u> |

Operating Loss (196,010)

Nonoperating Revenues and (Expenses):

| | |
|---|----------------|
| Federal and State Restricted Grants | 602,998 |
| Interest Expense | (116,067) |
| Net Nonoperating Revenues and (Expenses) | <u>486,931</u> |

| | |
|-------------------------------------|-----------------------------|
| Change in Net Assets | 290,921 |
| Net Assets Beginning of Year | <u>(2,187,909)</u> |
| Net Assets End of Year | <u><u>(\$1,896,988)</u></u> |

See Accompanying Notes to the Basic Financial Statements

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|--------------------|
| Foundation Receipts | \$2,937,290 |
| Charge for Services | 27,338 |
| Miscellaneous | 3,364 |
| Cash Payments to Suppliers for Goods and Services | <u>(3,428,359)</u> |
| Net Cash Used For Operating Activities | <u>(460,367)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|----------------|
| Short-term Financing Payments | (80,858) |
| Federal and State Grant Receipts | <u>599,001</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>518,143</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|-----------------|
| Note Payable Interest Payments | (20,000) |
| Capital Lease Interest Payments | (7,213) |
| Capital Lease Principal Retirement | <u>(30,554)</u> |
| Net Cash Used for Capital and Related Financing Activities | <u>(57,767)</u> |

| | |
|---|-----------------------|
| Net Increase in Cash and Cash Equivalents | 9 |
| Cash and Cash Equivalents - Beginning of the Year | <u>6,582</u> |
| Cash and Cash Equivalents - Ending of the Year | <u><u>\$6,591</u></u> |

Reconciliation of Operating Loss to Net Cash Used For Operating Activities

| | |
|----------------|--------------------|
| Operating Loss | <u>(\$196,010)</u> |
|----------------|--------------------|

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

| | |
|---|---------------------------|
| Depreciation | 33,375 |
| Changes in assets and liabilities: | |
| Increase in Accounts Receivable | (88,687) |
| Decrease in Prepaid Expense | 479 |
| Increase in Accounts Payable, Trade | 65,309 |
| Decrease in Accounts Payable, Related Party | (280,553) |
| Increase Deferred Revenue | <u>5,720</u> |
| Net Cash Used for Operating Activities | <u><u>(\$460,367)</u></u> |

See Accompanying Notes to the Basic Financial Statements

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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

Note 1 - Description of the School

The Cornerstone Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in kindergarten and grades 1 through 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 contract with the Ohio State Board of Education commencing on July 1, 2000. The Academy began the 2005-06 fiscal year under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2011. In June of 2011, the Sponsor renewed the charter contract for five academic years ending June 30, 2016. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 16.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus

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

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy, but it does require that estimated budgets be submitted to the Sponsor prior to the start of each fiscal year.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the period ended June 30, 2012.

F. Capital Assets

The Academy's capital assets during the year ended June 30, 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. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

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

| <u>Description</u> | <u>Useful Lives</u> |
|------------------------------------|---------------------|
| Furniture, Fixtures, and Equipment | 5-20 years |
| Leasehold Improvements | 15 years |

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2012, the Academy reported no restricted net assets and \$41,118 of net assets invested in capital assets net of related debt.

H. Operating Revenues and Expenses

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

I. Estimates

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

J. Economic Dependency

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

Note 3 – Changes in Accounting Principles

There were no changes in accounting principles implemented during 2012 that would have a material effect on the financial statements.

**CORNERSTONE 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 carrying value of the Academy's deposits totaled \$6,591 and the bank balance totaled \$63,892. The bank balance was covered by federal depository insurance. The Academy has no investments at year end.

Note 5 – Receivables

At June 30, 2012, the Academy had intergovernmental receivables in the amount of \$28,999. The receivables are expected to be collected within one year.

| Grant | Amount |
|------------------------------------|----------|
| Title I | \$12,567 |
| Title III | 9,107 |
| Race to the Top | 6,925 |
| Child Nutrition Program | 400 |
| Total Intergovernmental Receivable | \$28,999 |

Note 6 - Capital Assets

Capital asset activity for the period July 1, 2011 to June 30, 2012, was as follows:

| | Balance June 30, 2011 | Additions | Deletions | Balance June 30, 2012 |
|--------------------------------|--------------------------|------------|-----------|--------------------------|
| Depreciable Capital Assets | | | | |
| Leasehold Improvements | \$34,783 | \$0 | \$0 | \$34,783 |
| Computer Technology | 97,388 | 0 | 0 | 97,388 |
| Furniture & Equipment | 170,779 | 0 | 0 | 170,779 |
| Total at Historical Cost | 302,950 | 0 | 0 | 302,950 |
| Less: Accumulated Depreciation | | | | |
| Leasehold Improvements | (9,275) | (2,319) | 0 | (11,594) |
| Computer Technology | (92,290) | (3,399) | 0 | (95,689) |
| Furniture & Equipments | (72,325) | (27,658) | 0 | (99,983) |
| Total Accumulated Depreciation | (173,890) | (33,376) | 0 | (207,266) |
| Capital Assets, Net | \$129,060 | (\$33,376) | \$0 | \$95,684 |

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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

Note 7 - Risk Management

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the Academy contracted with Brown & Brown of Marmora through The Hartford for property and general liability insurance. The Policy calls for general liability coverage of \$1,000,000 single occurrence limit and \$2,000,000 aggregate. The Academy also carried excess/umbrella liability coverage of \$5,000,000. 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.

B. Workers' Compensation

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

C. Other Employee Benefits

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

Note 8 – Purchased Services

For fiscal year ended June 30, 2012, purchased service expenses were for the following services:

| | June 30, 2012 |
|---|---------------------------|
| Purchased Services | <u>2012</u> |
| Personnel Services | \$1,461,829 |
| Building Services | 145,869 |
| Food Services | 126,375 |
| Student Services | 86,745 |
| Instructional and Administrative Services | 464,948 |
| Professional Services | 14,781 |
| Sponsor Services | 88,073 |
| Advertising | 7,088 |
| Total Purchased Services | <u><u>\$2,395,708</u></u> |

**CORNERSTONE 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 \$31,727, \$31,680 and \$27,018, 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.

**CORNERSTONE 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.

**CORNERSTONE 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 \$128,848, \$114,573 and \$85,366 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 \$1,874, \$1,720 and \$1,612, 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.

**CORNERSTONE 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 \$1,374, \$3,236 and \$1,060, 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.

**CORNERSTONE 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 \$9,604, \$8,184 and \$6,567, 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 effect 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 resulted in state funding being adjusted due to an overpayment in the amount of \$5,720 by ODE. The overfunded amount has been recorded as a decrease in revenue and deferred revenue at June 30, 2012.

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 – Capital Lease-Lessee Disclosure

The Academy entered into several lease agreements between fiscal years 2006 and 2011 for the purchase of technology (computers), furniture and equipment for an original cost of \$195,256. In addition, in fiscal year 2009, the Academy entered into a lease agreement for the purchase of security, cabling, paging and telephone systems for an original cost of \$72,914. The Academy's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases".

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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

Note 12 – Capital Lease-Lessee Disclosure (Continued)

The equipment has been capitalized in the amount of \$268,169, the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows for June 30, 2012:

| Year Ending June 30, | Base Payments Required |
|--|---------------------------|
| 2013 | \$ 32,743 |
| 2014 | 23,896 |
| 2015 | 3,757 |
| Total future minimum lease payments | 60,396 |
| ,Less: amount representing interest | (5,829) |
| Present value of future minimum lease payments | \$ 54,567 |

A liability for capital lease obligations in the amount of \$54,567 is reported on the Statement of Net Assets for year ended June 30, 2012. Of this amount, \$28,642 is a current liability due within one year. The following table summarizes the capital lease activity for the year ended June 30, 2012:

| | |
|--|----------|
| Capital Lease balance at July 1, 2011 | \$85,120 |
| Additions | 0 |
| Payments | (30,553) |
| Capital Lease balance at June 30, 2012 | \$54,567 |

Note 13 – Building Lease

In September 2008, the Academy entered into a lease agreement with Mosaica Columbus LLC, an affiliated company of Mosaica Education, Inc. for the use of a school facility located at 6015 East Walnut Street, Westerville, OH. During fiscal year 2009, the facility was under construction and was not available for use. As such, rental payments were not incurred during fiscal 2009 but commenced July 2009, the building construction completion date. The building is on 5.0 acres of land and is approximately 40,000 square feet. The lease term is fifteen years through June 2024. Lease payments are \$46,750 per month with inflation escalations each succeeding year beginning in July 2012. Excluding annual inflation rent adjustments, the following summarizes the lease commitment for the Academy:

| Fiscal Year End June 30, | Annual Rent |
|--------------------------|--------------|
| 2013 | \$ 550,000 |
| 2014 | 550,000 |
| 2015 | 550,000 |
| 2016 | 550,000 |
| 2017 | 550,000 |
| 2018-2022 | 2,750,000 |
| 2023-2024 | 1,100,000 |
| Total Lease Commitment | \$ 6,600,000 |

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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

Note 14 – Long-Term Obligations

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

| | <u>Balance at June 30, 2011</u> | <u>New Borrowings</u> | <u>Principal Payments</u> | <u>Balance at June 30, 2012</u> | <u>Amount Due Within One Year</u> |
|-------------------------|-------------------------------------|---------------------------|-------------------------------|-------------------------------------|---------------------------------------|
| Capital leases payable | \$85,120 | \$0 | \$30,553 | \$54,567 | \$28,642 |
| Promissory note payable | 1,238,877 | 0 | 0 | 1,238,877 | 0 |
| Total debt payable | <u>\$1,323,997</u> | <u>\$0</u> | <u>\$30,553</u> | <u>\$1,293,444</u> | <u>\$28,642</u> |

In 2010, the Academy executed a \$1,238,877 promissory note payable to Mosaica Education, Inc., a related party (see note 16), to finance outstanding invoices for services and/or reimbursable expenses over a multi-year term at a fixed rate of interest. Quarterly installments are due beginning September 15, 2010 and continue through maturity on March 15, 2019. No principal payments are due until September 2012. The following is a schedule of remaining debt service on these obligations:

| <u>Fiscal year ending</u> | <u>Installments</u> |
|----------------------------------|---------------------|
| June 30, 2013 | \$140,000 |
| June 30, 2014 | 180,000 |
| June 30, 2015 | 220,000 |
| June 30, 2016 | 260,000 |
| June 30, 2017 | 300,000 |
| June 30, 2018 thru June 30, 2019 | <u>665,000</u> |
| Total Payments | 1,765,000 |
| Interest | <u>(526,123)</u> |
| Principal | <u>\$1,238,877</u> |

Note 15 –Tax Exempt Status

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

**CORNERSTONE 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

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

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's foundation and federal revenues, excluding amounts related to student lunch and breakfast revenues. The management fee for the period ending June 30, 2012 was \$418,312.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc. employees working at the Academy, and other costs related to providing educational and administrative services. Total expenses billed by Mosaica Education, Inc. during fiscal year 2012 were \$1,635,905.

At June 30, 2012, the Academy had payables to Mosaica Education in the amount of \$686,467. The following is a schedule of payables owed to Mosaica Education, Inc.:

| | <u>June 30, 2012</u> |
|--------------------------|-------------------------|
| Payroll | \$218,938 |
| Management Fee | 27,254 |
| Real Estate Taxes | 204,218 |
| Expense Reimbursements | 18,019 |
| Interest/Finance Charges | <u>218,038</u> |
| Total at June 30, 2012 | <u><u>\$686,467</u></u> |

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

Note 17 – Sponsor

The Academy was approved for operation under a contract renewal with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 1, 2011. As part of this contract, the Sponsor is entitled to a maximum of 3% of the all funds received by the Academy from the state. Total amount due and paid for year ended June 30, 2012 was \$88,073.

Note 18– Management's Plan

At June 30, 2012, the Academy had a net asset deficit of \$1,896,988. As further discussed in Note 14 and 16, a significant portion of that net asset deficit is being funded by the notes and accounts payable of \$1,238,877 and \$686,467, respectively, to Mosacia Education.

**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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

Note 18– Management’s Plan (Continued)

The Academy, with financial backing from its management company, was able to relocate from modular structures to a permanent facility for opening in fall of 2009 and management believes that the Academy is in a strong position to grow enrollment to or near capacity in the near future as a result of having a facility designed for educating children, strong community reputation for academic achievement and active advertising via print, radio, mailings and parent referrals. In addition, recent changes in property tax legislation has 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 \$100,000 for the Academy. The enrollment trends towards growth combined with elimination of future real estate assessment is expected to allow the Academy to begin to generate annual surpluses that will, over time, allow a recovery from the existing cumulative deficits.

Note 19– Subsequent Events

Subsequent to June 30, 2012, the Academy was able to secure financing to purchase its facility from Mosaica Education. That transaction will allow the Academy to expand its capacity and build equity in a facility over time. The transaction also enabled the Academy to free up sufficient cash flow to retire a significant portion of the Academy’s operating debt to Mosaica Education. The facility was purchased with financing from the Columbus-Franklin County Finance Authority, in the amount of \$9,520,000 in tax-exempt lease revenue bonds at 8.5% interest due July 1, 2042, and \$620,000 in taxable lease revenue bonds at 10% due July 1, 2022.

December 27, 2012

To the Board of Trustees
Cornerstone Academy
Franklin County, Ohio
6025 East Walnut Street
Westerville, Ohio 43081

**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 Cornerstone 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 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.

Cornerstone 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*.

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
Cornerstone Academy
Franklin County, Ohio
6025 East Walnut Street
Westerville, Ohio 43081

**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 Cornerstone 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.

Cornerstone 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.

**CORNERSTONE 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 | \$ 145,730 | \$ 145,730 |
| Special Education IDEA Part B | 84.027 | 2012 | 63,742 | 63,742 |
| Title II-D Technology Literacy Challenge | 84.318 | 2012 | 928 | 1,735 |
| Title III English Language Acquisition Grants | 84.365 | 2012 | 18,165 | 18,165 |
| Title II-A Improving Teacher Quality | 84.367 | 2012 | 3,004 | 3,364 |
| ARRA - Race to the Top | 84.395 | 2012 | 40,752 | 40,752 |
| Ed Jobs | 84.410 | 2012 | 141,955 | 141,955 |
| <i>Total U.S. Department of Education</i> | | | 414,276 | 415,443 |
| 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 | 36,226 | 36,226 |
| National School Lunch Program (B) | 10.555 | 2012 | 98,005 | 98,005 |
| <i>Total Child Nutrition Cluster</i> | | | 134,231 | 134,231 |
| <i>Total U.S. Department of Agriculture</i> | | | 134,231 | 134,231 |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | \$ 548,507 | \$ 549,674 |

The accompanying notes are an integral part of this schedule.

**CORNERSTONE 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> |
|---|-------------------|--------------------|---------------------|
| 84.367 Title II-A Improving Teacher Quality | 2012 | \$ 360 | |
| 84.367 Title II-A Improving Teacher Quality | 2011 | | \$ 360 |
| 84.318 Title II-D Technology Literacy Challenge | 2012 | 807 | |
| 84.318 Title II-D Technology Literacy Challenge | 2011 | | 807 |
| | | <u>\$ 1,167</u> | <u>\$ 1,167</u> |

**CORNERSTONE 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 |
|--|

| | | |
|----------------|--|---|
| (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 |
|--|

None were noted.

December 27, 2012

Cornerstone Academy
Franklin County, Ohio
6025 West Walnut Street
Westerville, Ohio 43081

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES

To the Board of Trustees:

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

1. We noted the Board amended its anti-harassment policy at its meeting on April 26, 2012, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 of Trustees and Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



Dave Yost • Auditor of State

CORNERSTONE ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 12, 2013**