



**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report .....	1
Management's Discussion and Analysis .....	3
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Changes in Net Assets .....	8
Statement of Cash Flows .....	9
Notes to the Basic Financial Statements.....	11
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	21

**THIS PAGE INTENTIONALLY LEFT BLANK**



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Cornerstone Academy  
Franklin County  
61 East Mound Street  
Columbus, Ohio 43215

To the Board of Trustees:

We have audited the accompanying basic financial statements of Cornerstone Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 financial position of Cornerstone Academy, Franklin County, Ohio, as of June 30, 2005, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended June 30, 2005, the Academy's component unit, Cornerstone Preschool, which had been a component unit of the Academy in prior years, changed the composition of their Board and is no longer considered a component unit.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 11, 2006

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of the financial performance of the Cornerstone Academy, provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**FINANCIAL HIGHLIGHTS**

- Total Assets were \$25,187.
- Total Liabilities \$10,919.
- Total Net Assets \$14,268.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the Cornerstone Academy. Enterprise accounting uses a flow of economic resources 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 basic statement of position for the Academy. The statement of revenues, expenses, and changes in net assets presents 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.

**REPORTING THE ACADEMY AS A WHOLE**

The view of the School as a whole looks at all financial transactions and asks, "How did we do financially during 2005?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and change in those asset. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**FINANCIAL ANALYSIS**

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 government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

Table 1 provides a summary of the Academy's net assets for fiscal years 2005 and 2004.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Table 1  
Net Assets**

	<u>2005</u>	<u>2004</u>
<b>Assets:</b>		
Current Assets	\$ 25,187	\$ 23,804
<b>Liabilities:</b>		
Current Liabilities	10,919	35,719
Long-Term Liabilities	0	814
Total Liabilities	10,919	36,533
<b>Net Assets:</b>		
Restricted for Other Purposes	8,464	7,033
Unrestricted	5,804	(19,762)
Total Net Assets	\$ 14,268	\$ (12,729)

While cash and cash equivalents increased by \$20,179 due to the Academy collecting all outstanding receivables of \$20,796 from 2004, total receivables decreased by \$18,796 due to the Academy collecting most of their federal and state grant money prior to June 30, 2005, total liabilities decreased by \$25,614 due to paying out 100% of employee contracts prior to year end. As a result, total net assets increased by \$26,997.

Table 2 shows the changes in net assets for fiscal years 2005 and 2004:

**Table 2  
Change in Net Assets**

	<u>2005</u>	<u>2004</u>
<b>Operating Revenues:</b>		
Foundation Payments	\$340,000	\$331,376
Charge for Services	5,608	0
Donations & Other Revenue	40,151	74,357
Total Revenue	385,759	405,733
<b>Operating Expenses:</b>		
Salaries	202,030	198,802
Fringe Benefits	46,445	74,721
Purchased Services	102,194	131,680
Materials and Supplies	15,688	4,365
Other Operating Expenses	20,606	21,665
Total Expenses	386,963	431,233
Operating Loss	(1,204)	(25,500)



**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

<b>Non-Operating Revenues:</b>		
Federal Subsidies	24,816	32,735
State Subsidies	3,088	5,045
Interest Earnings	297	125
Total Non-Operating Revenues	<u>28,201</u>	<u>37,905</u>
Increase in Net Assets	<u><u>\$ 26,997</u></u>	<u><u>\$ 12,405</u></u>

The Academy operates as a one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds is not included in the discussion and analysis. Results of fiscal year 2005 operations indicate an increase in net assets of \$26,997 and corresponding ending net assets of \$14,268.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

The dependence upon state foundation revenues for operating activities is apparent. Foundation revenues represented 88% of the Academy's operating revenue, while Salaries and Fringe Benefits comprise 64% of operating expenses.

**BUDGET**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Community School's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Trustees. Fiscal year 2005 revenues and expenses did not vary significantly from corresponding projections included on the five-year projection. A combination of improving enrollment and careful analysis of expenditures enabled projections for 2005 to be accurate.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Academy has no capital assets and has not issued any debt.

**OTHER INFORMATION**

Management is currently unaware of any known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations. The Academy is looking into options on reducing expenses and increasing overall revenue and as a result has established a Financial Resource Development Committee whose objective is to raise additional funds for operations in the 2006 and beyond school years.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005**

**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$ 23,187
Receivables:	
Intergovernmental Receivable	<u>2,000</u>
<i>Total Assets</i>	<u>25,187</u>

**Liabilities:**

**Current Liabilities:**

Accounts Payable	4,047
State Pensions Payable	<u>6,872</u>
<i>Total Liabilities</i>	<u>10,919</u>

**Net Assets**

Restricted for Other Purposes	8,464
Unrestricted	<u>5,804</u>
<i>Total Net Assets</i>	<u><u>\$ 14,268</u></u>

See accompanying notes to the basic financial statements

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005**

<b>Operating Revenues</b>	
Foundation Payments	\$ 268,145
Disadvantaged Pupil Impact Aid	71,855
Charge for Services	5,608
Other Operating Revenues	40,151
	<hr/>
<i>Total Operating Revenues</i>	385,759
	<hr/>
<b>Operating Expenses</b>	
Salaries	202,030
Fringe Benefits	46,445
Purchased Services	102,194
Materials and Supplies	15,688
Other Operating Expenses	20,606
	<hr/>
<i>Total Operating Expenses</i>	386,963
	<hr/>
<i>Operating Loss</i>	(1,204)
	<hr/>
<b>Non-Operating Revenues</b>	
Interest Earnings	297
State Restricted Grants	3,088
Federal Restricted Grants	24,816
	<hr/>
<i>Total Non-Operating Revenues</i>	28,201
	<hr/>
<i>Change in Net Assets</i>	26,997
	<hr/>
<i>Net Assets Beginning of Year</i>	(12,729)
	<hr/>
<i>Net Assets End of Year</i>	\$ 14,268
	<hr/> <hr/>

See accompanying notes to the basic financial statements

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$ 341,519
Cash Received from Sales	5,608
Cash Received from Fees and Other Sources	46,856
Cash Payments to Suppliers for Goods and Services	(144,552)
Cash Payments to Employees for Services	(218,630)
Cash Payments for Employee Benefits	<u>(49,395)</u>
Net Cash Used for Operating Activities	<u>(18,594)</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Restricted Grants	<u>38,476</u>
-------------------------------------	---------------

**Cash Flows from Investing Activities:**

Interest on Investments	<u>297</u>
-------------------------	------------

Net Increase in Cash and Cash Equivalents 20,179

Cash and Cash Equivalents at Beginning of Year 3,008

Cash and Cash Equivalents at End of Year \$ 23,187

**Reconciliation of Operating Loss to Net Cash Used for Operating Activities**

Operating Loss \$ (1,204)

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

Changes in Assets and Liabilities	
Decrease in Accounts Receivable	6,705
Decrease in Intergovernmental Receivable	1,519
Decrease in Accounts Payable	(7,846)
Decrease in Accrued Wages & Benefits	(12,020)
Decrease in Compensated Absences Payable	<u>(5,748)</u>

Total Adjustments (17,390)

Net Cash Used for Operating Activities \$ (18,594)

See accompanying notes to the basic financial statements

**THIS PAGE INTENTIONALLY LEFT BLANK**

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Cornerstone Academy Community School (the "Academy") is a non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to focus on instruction of school children, grades K, 1, 2, and 3. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

The Academy was approved for operation on February 11, 2000 under a contract by and between the Ohio State Board of Education and the Board of Trustees of the Cornerstone Academy Community School. The Academy commenced official operation on July 1, 2000. The five-member Board of Trustees is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy's staff of one director (principal), one secretary, and four full time certificated teachers who provide services to 60 students.

The primary government of the Academy consists of all funds and departments that comprise the legal entity of the Academy. Cornerstone Preschool had been a component unit of the Academy in prior periods. However, the composition of the Preschool's Board changed during the year ended June 30, 2005 and the Preschool is no longer considered a component unit of the Academy.

The Academy was reassigned for operation under a contract with the Ohio Department of Education to the St. Aloysius Orphanage (the Sponsor) for a period of five years commencing in the 2006 academic year. 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the School's accounting policies.

**A. Basis of Presentation**

**Enterprise Accounting**

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 enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities 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 net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

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. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year 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.

**C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and the Ohio State Board of Education does not prescribe a budgetary process for the Academy.

**D. Cash and Investments**

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. All monies received by the Academy are pooled and deposited in a central bank account. All monies of the Academy are maintained in this account or temporarily used to purchase short-term investments.

For presentation on the financial statements investments with a maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

During the year ended 2005, investments were limited to repurchase agreements. Repurchase agreements are reported at cost.

**E. Intergovernmental Revenues**

The Academy currently participates in the State Foundation, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.



**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Intergovernmental Revenues (Continued)**

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**F. Capital Assets and Depreciation**

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Improvements are capitalized, the cost 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.

Capital assets are depreciated using the straight line method over the assets' estimated useful lives. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets.

At June 30, 2005, the Academy does not possess any capital assets that meet the policy; therefore, capital assets are not reflected on the financial statements.

**G. 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 accompany notes. Actual results may differ from those estimates.

**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 presently has restricted net assets totaling \$8,464.

**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.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by the Academy and an expense is recorded when used. The Academy has no prepaid items at June 30, 2005.

**K. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year ended June 30, 2005.

**3. CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2005, the Academy implemented Governmental Accounting Standards Board (GASB) Statement Number 40, "Deposits and Investment Risk Disclosure". GASB Number 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the Academy's financial statements.

**4. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Academy into three categories.

Active deposits are public deposits necessary to meet current demand on the treasury. Such monies must be maintained either as cash in the Academy treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

The investment and deposit of the Academy's monies is governed by the provisions of the ORC. In accordance with these statutes, the Academy is authorized to invest in United States and State of Ohio bonds, notes, and other obligations; bank certificates of deposit; banker acceptances; commercial paper notes rated prime and issued by United States corporations; repurchase agreements secured by United States obligations, and STAR Ohio.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

**Deposits**

*Custodial Credit Risk* - is the risk that in the even of bank failure, the Academy's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Academy's name. The Academy complied with the provisions of these statutes.

At June 30, 2005 the carrying amount of the Academy's deposits was \$2,136 and the bank balance was \$10,000. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2005, 100% of the Academy's bank balance of \$10,000 was covered by Federal Deposit Insurance Corporation.

**Investments**

As of June 30, 2005, the Academy had the following investment:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Repurchase Agreement	Current	\$21,051

*Interest Rate Risk* - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date.

*Credit Risk* - The Academy's investment in the Repurchase Agreement was rated AAAM by Standard and Poor's.

*Concentration of Credit Risk* - The Academy places no limit on the amount the Academy may invest in any one issuer. The Academy has 100% of their investments in repurchase agreements.

**5. RECEIVABLES**

Receivables at June 30, 2005, consisted of intergovernmental receivables arising from grant funding. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

<u>Intergovernmental Receivable</u>	<u>Amount</u>
Part B-Idea - FY 2005	\$1,228
Child Nutrition - FY 2005	<u>772</u>
Total Intergovernmental Receivable	<u><u>\$2,000</u></u>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**6. 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 2005, the Academy contracted with Archer-Meek-Weiler Agency, Inc. through Cincinnati Insurance Company for property and general liability insurance. The policy calls for coverage of \$1,000,000 single occurrence limit and \$2,000,000 aggregate and \$1,000 deductible.

**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.

**7. DEFINED BENEFIT PENSION PLANS**

(a) State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

(a) State Teachers Retirement System (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$28,808, \$32,546 and \$36,237 respectively; 85.39 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

(b) School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$8,672, \$14,085 and \$17,469 respectively; 69.28 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**8. OTHER POST EMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$2,216 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, Academy paid \$2,814 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**9. JOINTLY GOVERNED ORGANIZATIONS**

**Metropolitan Educational Council (MEC)** MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to the Academy in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The Academy does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provided computer services in the amount of \$7,804 to the Academy for fiscal year 2005.

**10. CONTINGENCIES**

**A. Grants**

The Academy receives 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, 2005.

**B. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State Law. On April 21, 2003 the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was set for oral arguments on November 18, 2003.

On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review of February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Academy is not presently determinable.

**C. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in the state funding being adjusted. The review resulted in the discovery of an overpayment to the Academy in the amount of \$1,213. This amount was deemed immaterial and is not reflected on the financial statements.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**11. PURCHASED SERVICES EXPENSES**

For fiscal year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

Saint Johns Church (Rent)	\$37,778
Consulting	15,499
Advertisement	193
Utilities	11,564
Metropolitan Educational Center	7,804
Other Purchased Services	29,356
Total Purchased Services	<u>\$102,194</u>

**12. TAX EXEMPT STATUS**

The Academy completed their application and filed for tax-exempt status under 501(c) 3 of the Internal Revenue Code on May 11, 2000 and was approved for tax-exempt status on October 31, 2000. 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.

**13. OPERATING LEASE**

The Academy entered into an operating lease agreement for use of property. The premises shall be used for an educational program for children. The lease was renewed August 21, 2005, and shall terminate on August 21, 2010. The Board will at that time determine renewal of the lease. The new monthly charge for the rental is \$4,666 payable the first of each month. The Academy is responsible for the interior maintenance and repairs, utilities, redecorating, inspections, insurance, and damages to the premises.

**14. SUBSEQUENT EVENT**

Effective July 1, 2005, the Academy entered into a management contract with Mosaica Education, Inc. (MEI). MEI will be in charge of educational services such as: curriculum, instruction, instructional tools, extra-curricular and co-curricular programs, and additional educational services. MEI will also be responsible for the following administrative services: personnel management, facility operation and maintenance, business administration, transportation and food services, public relations, budgeting and financial reporting, maintenance of financial and student records, admissions, student hearings, academic progress reports, rules and procedures, and additional administrative services. In return for these services, the Academy will pay MEI 12.5% of all local, state, and federal funds.





## **Auditor of State Betty Montgomery**

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

Cornerstone Academy  
Franklin County  
61 East Mound Street  
Columbus, Ohio 43215

To the Board of Trustees:

We have audited the basic financial statements of Cornerstone Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2005, and have issued our report thereon dated January 11, 2006, wherein we noted Cornerstone Preschool is no longer a component unit of the Academy. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

#### **Compliance and Other Matters**

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

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 11, 2006



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
FEBRUARY 28, 2006**