



Mary Taylor, CPA
Auditor of State

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Capitol City Academy
Franklin County
33 N. High Street, Suite 400
Columbus, Ohio 43215

To the Board of Directors:

We have audited the accompanying basic financial statements of the Capitol City Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Capitol City Academy, Franklin County, Ohio, as of June 30, 2006, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2007, 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.

Management's Discussion & Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 9, 2007

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The discussion and analysis of Capitol City Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance. During fiscal year 2006, the Academy changed its name from Vision into Action Academy.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999.

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- Total net assets at year end were \$27,471 compared with \$7,496 of total net assets reported for the prior year.
- The total assets of the Academy increased by \$75,467 over 2005 primarily due to the significant additions of capital assets recognized during the year as well as an increase in the amount of intergovernmental receivables booked related to federal and state grants.
- The \$55,492 increase in total liabilities is related to the Academy still owing \$50,000 on a line of credit at year end. At June 30, 2005 the Academy did not have any outstanding debt obligations.
- In fiscal year 2006, total revenues increased \$807,883 and expenses increased \$795,404 over those reported for the prior year. The majority of these increases are attributable to fiscal year 2006 being the first full year the Academy has been in operation as well as the expansion of some of the programs offered at the Academy.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the Academy's net assets for fiscal years 2006 and 2005.

Table 1
Net Assets

	2006	2005
Assets:		
Current and other assets	\$ 82,956	\$ 63,223
Capital assets, net	147,438	91,704
Total Assets	230,394	154,927
Liabilities:		
Current liabilities	202,923	147,431
Total Liabilities	202,923	147,431
Net Assets:		
Invested in capital assets	147,438	91,704
Restricted	62,545	52,934
Unrestricted	(182,512)	(137,142)
Total Net Assets	\$ 27,471	\$ 7,496

At June 30, 2006 the Academy reported net assets of \$27,471. Of this amount \$147,438 was net assets invested in capital assets and another \$62,545 was restricted for various state and federal educational program grants. Since the Academy first began operations in the prior school year, there were significant start-up costs incurred during fiscal year 2006. As the programs were expanded it was necessary to purchase additional equipment and supplies. Some of the equipment could be capitalized but a significant portion was expensed during fiscal year 2006. The net capital assets amount reported at June 30, 2006 was \$55,734 higher than the amount reported for the previous fiscal year despite the Academy reporting \$58,967 of depreciation expense for the current year. The Academy spent \$114,701 on capital assets during the year, including numerous pieces of computer equipment and various fixtures for use in the classrooms.

During fiscal year 2006, the Academy borrowed against a line of credit it has with a local financial institution. At June 30, 2006 \$50,000 remained outstanding against this line of credit which explains why the Academy's liabilities increased from the amounts reported in the prior year. Current assets were higher than those reported at June 30, 2005 due to the Academy recognizing more intergovernmental grants receivables associated with various federal programs which it had not yet utilized as of the end of fiscal year 2006.

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and 2005, as well as revenues and expenses.

Table 2
Net Assets

	2006	2005
Operating Revenues:		
Foundation payments	\$ 959,687	\$ 642,591
Charges for Services	190,976	-
Other operating revenues	4,302	11,647
Non Operating Revenues:		
State and federal grants	498,952	188,046
Local grants	-	1,250
Capital contributions	-	2,500
Total Revenues	1,653,917	846,034
Operating Expenses:		
Salaries	700,680	324,195
Fringe Benefits	132,711	70,671
Building rental	181,286	-
Other purchased services	307,452	370,852
Materials and supplies	236,184	21,524
Other expenses	13,316	10,493
Interest and fiscal charges	3,346	9,448
Depreciation	58,967	31,355
Total Expenses	1,633,942	838,538
Change in net assets	19,975	7,496
Net assets, beginning of year	7,496	-
Net Assets, end of year	\$ 27,471	\$ 7,496

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

As the Academy first began operations for the 2004-2005 school year, fiscal year 2006 was the first full year of operations which, along with additional students enrolled, account for the increases reported in foundation revenue as well as personnel costs (salaries and fringe benefits). The \$190,976 reported as charges for services operating revenue was received from another charter school which utilized personnel and supplies from the Academy for the first time during fiscal year 2006. To enable these students to access the Academy's programs and personnel, a significant investment in classroom equipment and instructional software was made during fiscal year 2006. The actual hardware purchase was capitalized while the software and other instructional related programs were expensed during the year.

The \$310,906 increase in state and federal grants revenue reported the fiscal year is almost exclusively to the Academy applying for and receiving a \$300,000 charter school start-up grant from the Ohio Department of Education. This grant was used to finance the start-up costs of the school as well as finance a portion of the operating costs in the early stages of the Academy.

Capital Assets

The Academy maintains a capitalization threshold of \$100. At June 30, 2006 the Academy had invested \$237,760 in capital assets and reported \$90,322 in related accumulated depreciation resulting in net capital assets of \$147,438. During the year the Academy purchased \$114,701 of furniture and equipment and reported depreciation expense of \$58,967. See note 5 to the basic financial statement for additional details on the Academy's capital assets.

Debt Activity

During fiscal year 2006 the Academy found it necessary to borrow \$125,000 against a line of credit it has at a local financial institution for cash flow purposes at various times throughout the fiscal year. During the year, the Academy repaid \$75,000 against the line of credit principal leaving \$50,000 outstanding as of June 30, 2006.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Capitol City Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Capitol City Academy, Attn: Treasurer, 30 North High Street, Suite 400, Columbus, Ohio 43215, (614) 324-1492.

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 9,755
Receivables:	
Grants	<u>73,201</u>
Total current assets	<u>82,956</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>147,438</u>
Total noncurrent assets	<u>147,438</u>
Total assets	<u>230,394</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	37,539
Accrued wages payable	72,172
Intergovernmental payable	43,212
Line of credit payable	<u>50,000</u>
Total liabilities	<u>202,923</u>
<u>Net assets</u>	
Invested in capital assets	147,438
Restricted	62,545
Unrestricted	<u>(182,512)</u>
Total net assets	<u>\$ 27,471</u>

See accompanying notes to the financial statements

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2006**

<u>Operating revenues:</u>	
Foundation payments	\$ 959,687
Charges for Services	190,976
Miscellaneous operating revenue	<u>4,302</u>
 Total operating revenues	 <u>1,154,965</u>
 <u>Operating expenses:</u>	
Salaries	700,680
Fringe benefits	132,711
Building rental	181,286
Other purchased services	307,452
Materials and supplies	236,184
Depreciation	58,967
Other	<u>13,316</u>
 Total operating expenses	 <u>1,630,596</u>
 Operating loss	 <u>(475,631)</u>
 <u>Non-operating revenues(expenses):</u>	
State and federal grant revenue	498,952
Interest and fiscal charges	<u>(3,346)</u>
 Total non-operating revenues(expenses)	 <u>495,606</u>
 Change in net assets	 19,975
Net assets at beginning of year	<u>7,496</u>
Net assets at end of year	\$ <u>27,471</u>

See accompanying notes to the financial statements

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:

Cash from State of Ohio	\$	946,783
Cash payments to suppliers for goods and services		(724,928)
Cash payments to employees for services and benefits		(828,305)
Other operating revenue		<u>195,278</u>
Net cash used for operating activities		<u>(411,172)</u>

Cash flows from noncapital financing activities:

Federal and state subsidies		468,777
Proceeds borrowed against line of credit		125,000
Line of credit principal repaid		(75,000)
Interest paid on line of credit		<u>(3,346)</u>
Net cash provided by noncapital financing activities		<u>515,431</u>

Cash flows from capital and related financing activities:

Cash payments for capital acquisitions		<u>(114,701)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,442)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		<u>20,197</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$	<u><u>9,755</u></u>

**Reconciliation of operating loss to net cash used for
for operating activities**

Operating loss	\$	(475,631)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		58,967
Changes in assets and liabilities:		
Decrease in accounts payable		(21,672)
Increase in accrued wages payable		25,218
Increase in intergovernmental payable		13,743
Decrease in compensated absences payable		<u>(11,797)</u>
Total Adjustments		<u>64,459</u>
Net cash used for operating activities	\$	<u><u>(411,172)</u></u>

See accompanying notes to the financial statements

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**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

1. Description of the Academy and Reporting Entity:

Capitol City Academy (the Academy) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The Academy, which is part of the State's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

During fiscal year 2006, the Board of Director's approved and the Academy filed the necessary paperwork with the Secretary of State of Ohio to legally change its name from the Vision into Action Academy to the Capitol City Academy.

The Academy was approved for operation under contract with the Educational Resource Consultants of Ohio (Sponsor) for a period of five years commencing with fiscal year July 1, 2006 through June 30, 2011.

The Academy operates under a five-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and director of teachers. The Academy has one instructional/support facility staffed by one principal and fourteen full-time and part-time personnel who provide services to approximately 153 students.

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 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 (FASB) 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 Statements and Interpretations issued after November 30, 1989.

The more significant of the Academy's accounting policies are described below.

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in manner similar to private business enterprises and 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.

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. 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 difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. Summary of Significant Accounting Policies: (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when 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 Section 5705, unless specifically provided in the school's contract with its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash and cash equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash.

E. 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 these estimates.

F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of \$100. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of three to fifteen years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

G. Intergovernmental revenues

The Academy currently participates in the State Foundation Program. These funds are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. Summary of Significant Accounting Policies: (Continued)

H. Accrued liabilities payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2006, including:

Wages payable – a liability has been recognized at June 30, 2006 for salary payments made after year-end that were for services rendered in fiscal year 2006.

Intergovernmental payable – payment for the employer's share of the retirement contribution (\$19,524), workers' compensation (\$564), and Medicaid (\$1,046) associated with services rendered during fiscal year 2006, but were not paid until the subsequent fiscal year. In addition to salary related payments, the Ohio Department of Education has determined the Academy received \$22,078 in foundation payments during the year which it was not entitled to receive and these funds will be deducted over a nineteen month period from future foundation payments beginning in fiscal year 2007. Therefore, this amount has been booked as an intergovernmental payable as of June 30, 2006.

I. Federal tax exemption status

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

J. Net asset

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Cash Deposits:

At June 30, 2006, the carrying amount of the Academy's deposits was \$9,755 and the bank balance was \$37,619. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure", as of June 30, 2006, none of the bank balance was exposed to custodial credit risk as all of the bank balance was covered by the Federal Deposit Insurance Corporation.

4. Intergovernmental Receivables:

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2006 consisted of the following federal grants in which all grant requirements had been satisfied, Title I (\$67,549), Title IV-A (\$706), Title II-A (\$771), Title II-D (\$1,475) and School Nutrition Program (\$2,700).

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

5. Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

	Balance at July 1, 2005	Additions	Reductions	Balance at June 30, 2006
Capital Assets:				
Furniture and Equipment	\$ 123,059	\$ 114,701	\$ -	\$ 237,760
Accumulated Depreciation:				
Furniture and Equipment	(31,355)	(58,967)	-	(90,322)
Capital Assets, Net	\$ 91,704	\$ 55,734	\$ -	\$ 147,438

6. Risk Management:

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 2006, the Academy contracted with the Philadelphia Insurance Group for business personal property, director and officer liability and general liability insurance with a combined \$3,010,000 coverage limit.

Settled claims have not exceeded the Academy's coverage since the Academy has been established in 2004.

Employee insurance benefits – The Academy utilizes Genworth, and VSP to provide dental, life, accidental death and dismemberment insurance benefits to Academy employees.

7. Defined Benefit Pension Plans:

A. 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 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

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 2006, 10.58 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 a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, and 2005 were \$19,621 and \$3,400, respectively; 88.3 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 2005.

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. Defined Benefit Pension Plans: (Continued)

B. 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, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

A DB or Combined Plan member with five or more years of 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006 and 2005 were \$143,889 and \$31,335, respectively; 75 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 2005.

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

8. Postemployment Benefits

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$8,394 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$4,431.

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 the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

9. Short-Term Debt:

During fiscal year ended June 30, 2006 the Academy entered into a short-term debt agreement with Fifth Third Bank for a line of credit. During the fiscal year, the Academy borrowed \$125,000 on the line of credit and made payments totaling \$78,346; \$75,000 of principal payments and \$3,346 of interest payments. The remaining \$50,000 in principal on the line of credit, plus interest, will be repaid by the Academy in fiscal year 2007.

10. Operating Lease:

In September 2005, the Academy renewed its operating lease for one year with DownTown Tiano II, Ltd for the use of the Academy's facility. The lease renewal increased the monthly rental payments from \$14,197 to \$15,289 effective October 2005. Lease payments made totaled \$181,286 for the fiscal year.

11. Restricted Net Assets:

At June 30, 2006 the Academy reported restricted net assets totaling \$62,545. The nature of the restrictions on these net assets are as follows:

State specific educational program grants	\$ 3,349
Federal specific educational program grants	<u>59,196</u>
Total	<u>\$ 62,545</u>

12. Contingencies:

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and 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. A review conducted by the Ohio Department of Education determined the Academy owed the Ohio Department of Education \$22,078 at June 30, 2006. This amount is included within intergovernmental payables on the Academy's statement of net assets.

C. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is pending. The effect of this suit, if any, on the Academy is not presently determinable.

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

13. Purchased Services:

During the year ended June 30, 2006, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 79,044
Property services	61,673
Travel and meeting expenses	72,885
Communication and networking services	26,541
Contract craft or trades	3,988
Pupil transportation services	14,775
Other purchased services	<u>48,546</u>
Total	<u>\$ 307,452</u>

Mangen and Associates, LLC provided treasurer, financial management, CSADM/EMIS, and grant identification and application services for the Academy throughout the fiscal year. The amount paid for these fiscal services is stated above.

14. Related Party Transactions:

Jon Reinhard, Founder and former CEO of the Academy, also served on the Academy's Board of Directors during fiscal year 2006. During this time, the Academy paid Jon Reinhard, as an independent contractor, \$15,000 for CEO and administrative services provided on behalf of the Academy. In addition, the Academy also remitted \$40,000 to Mr. Reinhard to retroactively pay him for CEO and administrative services which were performed on behalf of the Academy in the prior fiscal year.

15. Contingent Liabilities

The Academy is a defendant in a judgment over a disputed invoice from a vendor. In addition, there are several disputes, not currently in litigation, that are being negotiated by the Board. Although management cannot presently determine the outcome of these issues, management believes that the resolution of these matters will not materially adversely affect the Academy's financial condition.

16. Management Plan

During the first two start-up years (FY05-FY06), the Academy used a line of credit provided by Fifth Third Bank to maintain the cash flow necessary during times of fluctuating receipts from state and federal sources. The Academy plans to continue the limited use of this line of credit during FY07. The Academy's future financial objectives include building an unencumbered cash reserve (equal to 3 months of average operating expenses) during the FY08 and FY09 fiscal years to meet ongoing cash flow requirements without the need for an outside line of credit.



Mary Taylor, CPA

Auditor of State

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

Capitol City Academy
Franklin County
33 N. High Street, Suite 400
Columbus, Ohio 43215

To the Board of Directors:

We have audited the financial statements of the Capitol City Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2006, and have issued our report thereon dated February 9, 2007. 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 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*. In a separate letter to the Academy's management dated February 9, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

Mary Taylor, CPA
Auditor of State

February 9, 2007

**CAPITOL CITY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC §121.22 and ORC §149.43 – Board meeting minutes, public records availability	Yes	Fully Corrected.
2005-002	Finding for Recovery, Repaid Under Audit – Overpayment of salary employee.	Yes	Fully Corrected.
2005-003	Finding for Recovery, Repaid Under Audit – ORC §3314.03, ORC §102.03, ORC §2921.42(A)(1), ORC §2921.42(A)(4) – expenditure of public funds paid to voting member of the Board.	Yes	Fully Corrected.



Mary Taylor, CPA
Auditor of State

CAPITAL CITY 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 13, 2007**