



**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2008**



**Mary Taylor, CPA**  
Auditor of State



**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Columbus Preparatory Academy, Franklin County, Ohio, (the Academy), as of and for the year ended June 30, 2008, 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 the Columbus Preparatory Academy, Franklin County, Ohio, as of June 30, 2008, 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 discussed in Note 19 to the financial statements, the Academy has a deficit net asset balance of (\$1,986,366) and operating loss (\$686,419) as of June 30, 2008 and is experiencing financial difficulties. Note 19 describes management's plan regarding these issues.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2009, 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 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.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

April 6, 2009

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
UNAUDITED*

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The discussion and analysis of the Columbus Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

**Highlights**

The Academy finished its third year of operation during fiscal year 2008 serving grades kindergarten through seventh grade. Enrollment varied during the year but averaged 565 students.

Key highlights for fiscal year 2008 are as follows:

- Net assets decreased \$261,213 as compared to \$284,047 in the prior fiscal year.
- The Academy had an operating loss of \$686,419 as compared to an operating loss of \$673,945 in the prior fiscal year.
- Total assets decreased \$14,406.
- Total liabilities increased \$246,807 due to an increase in accounts payable and related party payables.

**Overview of the Financial Statements**

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

**Financial Analysis of the Academy as a Whole**

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

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)*

Table 1 provides a summary of Academy's net assets for 2008 compared to 2007:

Table 1  
Net Assets

	<u>2008</u>	<u>2007</u>	<u>Change</u>
<u>Assets:</u>			
Current Assets	\$237,704	\$216,061	\$21,643
Capital Assets	65,250	101,299	(36,049)
Total Assets	<u>302,954</u>	<u>317,360</u>	<u>(14,406)</u>
<u>Liabilities:</u>			
Current Liabilities	1,979,320	1,577,513	401,807
Long-Term Liabilities	310,000	465,000	(155,000)
Total Liabilities	<u>2,289,320</u>	<u>2,042,513</u>	<u>246,807</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	65,250	89,070	(23,820)
Restricted for Other Purposes	0	12,689	(12,689)
Unrestricted	(2,051,616)	(1,826,912)	(224,704)
Total Net Assets	<u>(\$1,986,366)</u>	<u>(\$1,725,153)</u>	<u>(\$261,213)</u>

Total net assets decreased \$261,213. The cause of the decrease was the Board's recognition of the need to continue to offer programming that would accelerate learning of underperforming students faster than the traditional single grade level gains. The goal of the Board and management is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. For the fall of 2008, the Academy experienced a small setback in enrollment that will likely impact the school's ability to move past a breakeven position for 2009. The Academy's management and administration have been working to contain costs to minimize the impact of the smaller than anticipated growth in enrollment. Based on continued analysis of enrollment data, the Board and its management are committed to following the plan to invest in the future of the children of this community, not based on a plan that is expected to generate large economic profits, but rather on a plan that is economically sustainable over the long term and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary program are being made available by delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and personnel services.



**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2008 as compared to 2007.

Table 2  
Change in Net Assets

	2008	2007	Change
<u>Operating Revenues:</u>			
Foundation	\$3,700,586	\$3,024,992	\$675,594
Charges for Services	123,272	93,020	30,252
Miscellaneous	290	95	195
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	550,751	523,731	27,020
<b>Total Revenues</b>	<b>\$4,374,899</b>	<b>\$3,641,838</b>	<b>\$733,061</b>
<u>Operating Expenses:</u>			
Building	\$816,068	\$891,721	(75,653)
Purchased Services	3,294,502	2,590,648	703,854
Depreciation	38,470	38,470	0
General Supplies	318,236	242,630	75,606
Other Operating Expense	43,291	28,583	14,708
<u>Non-Operating Expenses:</u>			
Interest	125,545	133,833	(8,288)
<b>Total Expenses</b>	<b>\$4,636,112</b>	<b>\$3,925,885</b>	<b>\$710,227</b>
<b>Total Increase (Decrease) in Net Assets</b>	<b>(\$261,213)</b>	<b>(\$284,047)</b>	<b>\$22,834</b>

Fiscal year 2008 showed an increase in revenues and expenses which is primarily due to an increase in the number of students being served by the Academy from 487 in fiscal year 2007, to 565 in fiscal year 2008.

**Budgeting**

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

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)*

**Capital Assets and Debt Administration**

Capital Assets

At the end of fiscal year 2008, the Academy had \$65,250 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of \$36,049. The following table shows fiscal year 2008 compared to 2007:

Capital Assets at June 30 (Net of Depreciation)

	2008	2007	Change
Furniture & Equipment	\$65,250	\$101,299	(\$36,049)

The decrease primarily represents the depreciation expense for the year on the computer equipment. The Academy added approximately \$2,421 of assets in fiscal year 2008. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2008, the Academy had \$713,631 in notes and capital leases outstanding, \$403,631 due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2008.

Outstanding Debt, at Year End

	2008	2007	Change
Capital Leases Payable	\$0	\$12,229	(\$12,229)
Mosaica Education Promissionary Note	713,631	763,631	(50,000)
Total	\$713,631	\$775,860	(\$62,229)

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

**Economic Factors**

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

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)*

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**Operations**

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

**Requests for Information**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact Robert Schirhart, Controller for the Columbus Preparatory Academy, 3330 Chippewa Street, Columbus, Ohio 43204.

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**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

**Assets:**

***Current assets:***

Cash and Cash Equivalents	\$ 44,424
Accounts Receivable	240
Intergovernmental Receivable	175,006
Prepaid Expense	18,034
<b>Total current assets</b>	<u>237,704</u>

***Noncurrent assets:***

Capital Assets, net of Accumulated Depreciation	<u>65,250</u>
<b>Total assets</b>	<u>302,954</u>

**Liabilities:**

Accounts Payable, Trade	212,934
Accounts Payable, Related Party	1,362,755
Current Portion of Long-term Debt	<u>403,631</u>
<b>Total current liabilities</b>	<u>1,979,320</u>

**Noncurrent liabilities:**

Non Current Portion of Long-term Debt	<u>310,000</u>
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<b>Total liabilities</b>	<u>2,289,320</u>
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**Net Assets**

Invested in Capital Assets	65,250
Unrestricted Net Assets	<u>(2,051,616)</u>
<b>Total Net Assets</b>	<u>\$ (1,986,366)</u>

**See Accompanying Notes to the Basic Financial Statements**

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<b>Operating Revenues:</b>	
Community School Foundation	\$ 3,700,586
Charges for Services	123,272
Miscellaneous	290
<b>Total Operating Revenues</b>	<u>3,824,148</u>
<b>Operating Expenses:</b>	
Building	816,068
Purchased Services	3,294,502
Depreciation	38,470
General Supplies	318,236
Other Operating Expenses	43,291
<b>Total Operating Expenses</b>	<u>4,510,567</u>
<b>Operating Loss</b>	<u>(686,419)</u>
<b>Nonoperating Revenues and Expenses:</b>	
Federal and State Restricted Grants	550,751
Interest Expense	(125,545)
<b>Net Nonoperating Revenues and Expenses</b>	<u>425,206</u>
<b>Change in Net Assets</b>	(261,213)
<b>Net Assets (Deficit) Beginning of Year</b>	<u>(1,725,153)</u>
<b>Net Assets (Deficit) End of Year</b>	<u><u>\$ (1,986,366)</u></u>

**See Accompanying Notes to the Basic Financial Statements**

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Foundation Receipts	\$ 3,455,479
Charge for Services	123,031
Other Operating Receipts	290
Cash Payments to Suppliers for Goods and Services	<u>(3,928,983)</u>
Net Cash Used for Operating Activities	<u>(350,183)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Short-term Financing Payments	(49,589)
Federal and State Grant Receipts	<u>520,816</u>
Net Cash Provided by Noncapital Financing Activities	<u>471,227</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Note Payable Interest Payments	(68,727)
Note Payable Principal Payments	(50,000)
Capital Lease Interest Payments	(18,306)
Capital Lease Principal Retirement	(12,229)
Purchase of Assets	<u>(2,421)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(151,683)</u>

Net Decrease in Cash and Cash Equivalents	(30,639)
Cash and Cash Equivalents - Beginning of the Year	<u>75,063</u>
Cash and Cash Equivalents - Ending of the Year	<u><u>44,424</u></u>

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

Operating Loss	<u>(686,419)</u>
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**Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities**

Depreciation	38,470
Changes in assets and liabilities:	
Increase in Receivables	(13,322)
Increase in Prepaid Expense	(9,025)
Increase in Accounts Payable, Trade	87,618
Increase in Accounts Payable, Related Party	<u>232,495</u>
<b>Net Cash Used for Operating Activities</b>	<u><u>\$ (350,183)</u></u>

**See Accompanying Notes to the Basic Financial Statements**

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**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Note 1 - Description of the School**

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

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

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

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 17.

**Note 2 - Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

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

**B. Measurement Focus**

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

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**C. Basis of Accounting**

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

**D. Budgetary Process**

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

**E. Cash and Cash Equivalents**

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2008.

**F. Prepaid Items**

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2008, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**G. Capital Assets**

The Academy's capital assets during fiscal year 2008 consisted of computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

<u>Description</u>	<u>Useful Lives</u>
Furniture and Equipment	5-20 years

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2008, there were no net assets restricted by enabling legislation.

The statement of net assets reports \$65,250 invested in capital assets.

**I. Operating Revenues and Expenses**

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

**J. Estimates**

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

**K. Economic Dependency**

The Academy receives approximately 97% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

**Note 3 – Changes in Accounting Principles**

For fiscal year 2008, the Academy has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures". The implementation of GASB Statement 45 did not have an effect on the financial statements of the Academy; however, certain disclosures related to postemployment benefits (Refer to Note 10) have been modified to conform to the new reporting requirements. The implementation of GASB Statement 48 and GASB Statement 50 did not have effect on the financial statements for the Academy.

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

**Note 4 - Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2008 the bank balance of Academy's deposits was \$60,187. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**Note 5 – Receivables**

At June 30, 2008, the Academy had intergovernmental receivables, in the amount of \$175,006. The receivables are expected to be collected within one year.

Grant	Amount
National School Lunch Program	\$17,182
Foundation	\$13,223
Title I	117,902
Title II A	116
Title II D	4,340
Title IV	1,882
Title V	283
IDEA A	20,078
Total Intergovernmental Receivables	\$175,006

**Note 6 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Furniture & Equipment	\$193,029	2,421	0	\$195,450
Less Accumulated Depreciation	(91,730)	(38,470)	0	(130,200)
Capital Assets, Net	\$101,299	(\$36,049)	\$0	\$65,250

**Note 7 - Risk Management**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the Academy contracted with Pashley Insurance Agency to obtain insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

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**Note 7 - Risk Management (Continued)**

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	8,000,000
Aggregate Limit	8,000,000
Excess/Umbrella Liability:	
Building&BPP	7,081,000

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

**Note 8 – Purchased Services**

For the period July 1, 2007 through June 30, 2008, purchased service expenses were as follows:

	Amount
Personnel Services	\$2,010,132
Building Services	254,054
Food Service	208,978
Student Services	111,284
Staff and Administrative Services	603,805
Professional Services	18,221
Sponsor Services	73,747
Advertising	14,281
Total	<u><u>\$3,294,502</u></u>

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

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**Note 9 – Defined Benefit Pension Plans**

The Academy has contracted with Mosaica Education, Inc. to provide employee services. However, these contracted services do not relieve the Academy of the obligation for remitting pension contributions. The retirement system considers the Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

**A. School Employees Retirement System**

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer pension plan. SERS provides retirement 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.

Funding Policy - 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 2008, 9.16 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, by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$27,774, \$28,667, and \$20,442 respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006.

**B. State Teachers Retirement System of Ohio**

Plan Description - 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](http://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's lifetime 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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.

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

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**Note 9 – Defined Benefit Pension Plans (Continued)**

**B. State Teachers Retirement System of Ohio (Continued)**

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, 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 2007, 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, 2008, 2007, and 2006 were \$161,687, \$119,645 and \$104,172 respectively; 88 percent has been contributed for the fiscal year 2008, and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for the fiscal year 2008 were \$0 made by the Academy and \$0 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2008, none of the Academy staff have elected Social Security.

**Note 10 – Postemployment Benefits**

**A. School Employees Retirement System**

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

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**Note 10 – Postemployment Benefits (Continued)**

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$12,674, \$8,911, and \$6,608 respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal year ended June 30, 2008 were \$2,001; 100 percent has been contributed for fiscal year 2008.

**B. State Teachers Retirement System**

Plan Description – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$12,437, \$10,259, and \$8,013 respectively; 88 percent has been contributed for the fiscal year 2008, and 100 percent for fiscal years 2007 and 2006.

**Note 11 - Contingencies**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008.



**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

**Note 11 – Contingencies (Continued)**

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy is owed \$13,223 by the Ohio Department of Education. This was reported as an intergovernmental receivable on the June 30, 2008 statement of net assets.

**Note 12 – Building Leases**

The Academy has entered into a lease for the period from July 1, 2004 through June 30, 2019 with EFA Company, LLC a wholly owned subsidiary of Mosaica Education, Inc. for the use of the main building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 17. Rental payments incurred totaled \$653,349 for the fiscal year. Under the lease agreement, the Academy is responsible for paying all utilities, maintenance and repairs, and applicable property taxes.

The following is a schedule of the future minimum payments required under the operating as of June 30, 2008:

Fiscal Year Ending June 30	Amount
2009	796,473
2010	819,983
2011	843,899
2012	860,982
2013	886,094
2014-2018	4,757,276
2019	498,347
Total minimum lease payments	\$9,463,054

**Note 13 – Long-Term Obligations**

Changes in the Academy's long-term obligations during fiscal year 2008 were as follows:

	Balance 7/1/07	Additions	Reductions	Balance 6/30/2008	Amount Due Within One Year
Mosaica Education, Inc. Promissory Note	\$763,631	\$0	(\$50,000)	\$713,631	\$403,631
Capital Leases Payable	12,229	0	(12,229)	0	0
Long-Term Obligations	\$775,860	\$0	(\$62,229)	\$713,631	\$403,631

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

**Note 13 – Long-Term Obligations (Continued)**

Mosaica Education, Inc. Promissory Note- On December 7, 2005, the Academy entered into a promissory note with Mosaica Education, Inc for the some outstanding accounts payables. The promissory note has an interest rate of 9.0 percent and will mature in fiscal year 2011. The Academy has not made payments to Mosaica Education, Inc. as outlined and agreed to in the Promissory Note Agreement.

The principal and interest requirements to retire the promissory note with Mosaica Education, Inc. outstanding at June 30, 2008, were as follows:

Fiscal Year Ending	Promissory Note	
June 30	Principal	Interest
2009	403,631	43,012
2010	155,000	56,963
2011	155,000	70,912
Total	\$713,631	\$170,887

**Note 14 – Capital Lease-Lessee Disclosure**

The Academy has entered into capitalized leases for the use of computer equipment and for the use of telephone and surveillance equipment. Each lease meets the criteria of capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. During 2008, the Academy retired the remaining principal balance of \$12,229. The value of the related capital assets net of accumulated depreciation is summarized below.

Furniture and Equipment	\$192,350
Less Accumulated Depreciation	(130,200)
	\$62,150

**Note 15 – Operating Leases**

In August of 2004, the Academy entered into an operating lease for three years with American Industrial Leasing, Inc, for the use of classroom furnishings. During 2008, the Academy retired the last of the lease obligations and negotiated a buyout of the equipment under lease.

**Note 16 –Tax Exempt Status.**

The Academy has filed for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

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**Note 17 – Related Party Transactions/Management Company**

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

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2008 was \$546,862. In addition, upon termination of the agreement due to the nonperformance by either party, or in the event of nonrenewal upon expiration of the agreement, the Academy must pay Mosaica Education, Inc. \$100,000 per year for three consecutive years.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual cost incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries, of Mosaica Education, Inc employees working at the Academy, and other costs related to providing educational and administration services. The total expenses paid to Mosaica Education Inc during fiscal year 2007 were \$2,213,628.

At June 30, 2008, the Academy had payables to Mosaica Education, Inc. in the amount of \$1,362,755. The following is a schedule of payables owed to Mosaica Education, Inc.

	Amount
Payroll	\$461,729
Management Fee	159,409
Building Rent	117,692
Real Estate Taxes	504,012
Finance Charges and Note Interest	116,870
Miscellaneous	3,043
Total June 30, 2008	<u>\$1,362,755</u>

In addition, at June 30, 2008 the Academy owed Mosaica Education, Inc \$713,631 for a promissory note agreement dated December 7, 2005. See Note 13.

**Note 18 – Sponsor**

The Academy was approved for operation under a contract with the Ohio Council of Community Schools Council (the Sponsor) for a period of four academic years commencing July 1, 2004. As part of this contract, the Sponsor is entitled to a maximum of 3% of all revenues. Total amount due and paid for fiscal year 2008 was \$73,747.

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

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**Note 19 – Management’s Plan**

For fiscal year 2008, the Academy had an operating loss of (\$686,419), a decrease in net assets of (\$261,213), and a cumulative net asset deficit of (\$1,986,366). The Academy anticipates having an additional decrease in net assets for the year ended June 30, 2009 due to lower than expected enrollment. As of February 28, 2009 the Academy’s change in net asset was (\$76,630) and net asset deficit was (\$2,062,996).

Final fiscal year 2007 full-time equivalent student enrollment was 487 students and final fiscal year 2008 full-time equivalent student enrollment was 565 students. Current full-time equivalents student enrollment as of February of 2009 is 566 students.

As of April 6, 2009, the Board of Directors has not approved plans to address these concerns.

Mosaica Education, Inc. plans to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and operating losses.

**Note 20 – Subsequent Events**

Subsequent to year end, the Board has negotiated with its landlord for an expansion of space to be occupied under its lease agreement. Construction was completed in the fall of 2008 to allow for the use of a multipurpose room and several additional classroom spaces. The Academy’s rent will increase in proportion to the landlord’s additional investment.

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<b><u>United States Department of Agriculture</u></b> <i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Federal School Breakfast Program	10.553	\$ 52,584	\$ 52,584
National School Lunch Program	10.555	173,280	173,280
Total U.S. Department of Agriculture-Nutrition Cluster		<u>225,864</u>	<u>225,864</u>
<b><u>United States Department of Education</u></b> <i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	151,060	162,443
Special Education Grants to States	84.027	85,838	73,697
Safe and Drug Free School and Communities State Grants	84.186	987	1,823
State Grants for Innovative Programs	84.298	482	-
Improving Teacher Quality State Grants	84.367	14,881	15,448
Education Technology State Grants	84.318	157	1,480
Public Charter School Grant	84.282	<u>21,956</u>	<u>25,514</u>
Total United States Department of Education		<u>275,361</u>	<u>280,405</u>
<b>TOTAL FEDERAL AWARDS</b>		<b><u>\$ 501,225</u></b>	<b><u>\$ 506,269</u></b>

*The accompanying notes are an integral part of this schedule.*

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

**NOTE C – TRANSFERS**

The Academy generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30<sup>th</sup> and spend by September 30<sup>th</sup>). However, with ODE's approval, an Academy can transfer unspent Federal assistance to the succeeding year, thus allowing the Academy a total 27 months to spend the assistance. During fiscal year 2008, the Ohio Department of Education (ODE) authorized the following transfers:

<b>CFDA Number</b>	<b>Program Title</b>	<b>Grant Year</b>	<b>Transfers Out</b>	<b>Transfers In</b>
84.010	Title I Grants to Local Educational Agencies	2007	\$34,309	
84.010	Title I Grants to Local Educational Agencies	2008		\$34,309
84.367	Improving Teacher Quality State Grants	2007	\$7,633	
84.367	Improving Teacher Quality State Grants	2008		\$7,633
84.318	Education Technology State Grants	2007	\$1,526	
84.318	Education Technology State Grants	2008		\$1,526
84.186	Safe and Drug Free Schools and Communities	2007	\$18	
84.186	Safe and Drug Free Schools and Communities	2008		\$18
84.027	Special Education Grants to States	2007	\$1,503	
84.027	Special Education Grants to States	2008		\$1,503
84.173	Early Childhood Special Education	2007	\$1,904	
84.173	Early Childhood Special Education	2008		\$1,904



# 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

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

To the Board of Directors:

We have audited the basic financial statements of the Columbus Preparatory Academy, Franklin County, Ohio, (the Academy), as of and for the year ended June 30, 2008, and have issued our report thereon dated April 6, 2009 wherein we noted the Academy had a deficit net asset balance and an operating loss as of June 30, 2008 and is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statement, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more than inconsequential financial statements misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain internal control matters that we reported to the Academy's management in a separate letter dated April 6, 2009.

### **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 provision 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 and 2008-002.

We also noted a certain noncompliance or other matter not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated April 6, 2009.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Directors, the Ohio Council of Community Schools, and federal awarding agencies, and pass through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

April 6, 2009





# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

### Compliance

We have audited the compliance of Columbus Preparatory Academy, Franklin County, Ohio, (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

In our opinion, the Columbus Preparatory Academy complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2008.

In a separate letter to the Academy's management dated April 6, 2009, we reported matters related to federal noncompliance not requiring inclusion in this report.

### Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to administer a federal program such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Academy's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted a certain internal control matter that we reported to the Academy's management in a separate letter dated April 6, 2009.

We intend this report solely for the information and use of management, the Board of Directors, the Ohio Council of Community Schools, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

April 6, 2009

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2008**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title I Grants to Local Educational Agencies—CFDA #84.010 <u>Nutrition Cluster</u> Federal School Breakfast Program- CFDA # 10.553 National School Lunch Program- CFDA #10.555
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS (Continued)  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2008  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2008-001**

**Debt Payments In Accordance with Promissory Note Agreement-Noncompliance**

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

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

The Academy has not made payments in accordance to the above payment schedule. As of June 30, 2008 the Academy has paid \$50,000 of the outstanding principal and \$97,363.20 of the interest.

The Academy should pay Mosaica Education, Inc. the debt obligations as outlined and agreed to in the Promissory Note Agreement.

**Officials Response**

The Academy's management company, Mosaica Education, Inc., has not demanded payment on these unsecured notes based on an oral agreement that Mosaica Education, Inc will not demand payment in accordance to the payment schedule in the Promissory Note Agreement if the Academy is not in a position to meet those obligations. The Academy is working with Mosaica Education, Inc. to restructure the terms of the note and include the terms of the oral agreement explicitly into the terms of the note.

**FINDING NUMBER 2008-002**

**Board Members-Noncompliance**

**Ohio Revised Code § 3314.02(E)** states in part that each new start-up community school established under this chapter shall be under the direction of a governing authority in which no person shall serve on the governing authorities of more than two start-up community schools at the same time.

The Academy's Board of Directors also served as the Board of Directors of the Columbus Arts and Technology Academy, the Columbus Humanities Arts and Technology Academy, and the Cornerstone Academy until December 2007.

We recommend that the Board of Directors continue to consist of at least five members and serve as the Board of Directors for no more than two community schools at the same time.

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS (Continued)  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2008  
(Continued)**

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

**FINDING NUMBER 2008-002 (continued)**

**Official's Response**

The Academy's Board has recruited sufficient new member to enable it to be in compliance with the minimum number per ORC Section 3314.02 (E).

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**COLUMBUS PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2008**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></b>
2007-001	Debt payments in accordance with Promissory Note Agreement	No	Not Corrected: this finding is being repeated as finding: 2008-001.
2007-002	Governing Authority-ORC 3314.02 (E)	No	Not Corrected: this finding is being repeated as finding: 2008-002.
2007-003	Timely Deposits	No	Partially Corrected: this finding is being repeated in the management letter.
2007-004	Board Monitoring	No	Partially Corrected: this finding is being repeated in the management letter.
2007-005	Monitoring of Purchased Service Expenses	No	Partially Corrected: this finding is being repeated in the management letter.
2007-006	Title I and Public Charter School—Reporting & Activities Allowed and Allowable Costs/Cost Principles	No	Partially Corrected: this finding is being repeated in the management letter.
2007-007	Public Charter School Grant-Period of Availability	Yes	
2007-008	Title I Student Eligibility	Yes	
2007-009	Title I-Activities Allowed and allowable costs/cost principles.	No	Partially Corrected: this finding is being repeated in the management letter.



Mary Taylor, CPA  
Auditor of State

**COLUMBUS PREPARATORY ACADEMY**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 7, 2009**