CORNERSTONE ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2009

Mary Taylor, CPA
Auditor of State

CORNERSTONE ACADEMY
FRANKLIN COUNTY

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Mary Taylor, CPA
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INDEPENDENT ACCOUNTANTS' REPORT

Cornerstone Academy
Franklin County
6025 E. Walnut Street
Westerville, Ohio 43081

To the Board of Directors:

We have audited the accompanying basic financial statements of the Cornerstone Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2009, 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 Cornerstone Academy, Franklin County, Ohio, as of June 30, 2009, 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.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 17 to the financial statements, the Academy's deficit net assets ($1,339,781) and operating loss ($395,573) raise substantial doubt about its ability to continue as a going concern. Note 17 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2010 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.

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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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 12, 2010

The discussion and analysis of the Cornerstone Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. 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 second year of operations since emerging from a temporary voluntary suspension of operations during fiscal year 2008 serving Kindergarten through sixth grade. The Academy suspended operations during the period October 1, 2006 through June 30, 2007 and resumed operations July 1, 2007. Enrollment varied during fiscal year 2009 but averaged 150 students.

As of fiscal year ended June 30, 2009:

- Net Assets decreased $424,859.
- Operating Revenues accounted for $954,197 of the Academy's total funding of $1,054,956.
- The Academy had an operating loss of $395,573 of which $100,759 was funded by non-operating federal grants. The Academy was able to utilize the federal grant allocations for fiscal year 2009.

Overview of the Financial Statements

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

Financial Analysis of the Academy as a Whole

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

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

	June 30, 2009	June 30, 2008	Change
Assets:			
Current Assets	$45,636	$19,660	$25,976
Capital Assets	189,854	147,666	42,188
Total Assets	235,490	167,326	68,164
Liabilities:			
Current Liabilities	1,492,332	1,049,480	442,852
Noncurrent Liabilities	82,939	32,768	50,171
Total Liabilities	1,575,271	1,082,248	493,023
Net Assets:			
Invested in Capital Assets, Net of Related Debt	86,152	73,987	12,165
Restricted for Other Purposes	65	55	10
Unrestricted	(1,425,998)	(988,964)	(437,034)
Total Net Assets	($1,339,781)	($914,922)	($424,859)

Results of fiscal year 2009 indicate an ending net asset deficit of $1,339,781, a decrease of $424,859 from fiscal year end 2008. The decrease is the result of enrollment challenges resulting from delayed facility opening complications. The Academy operated out of temporary modular structures while construction of a new site was in process. Subsequent to year end, construction was completed and the new school facility will be in use for the 2009-2010 school year. The Academy finished the school year with 150 students. Enrollment for the fall of 2009 has increased to 260. Capacity for the new building is approximately 475. Management is projecting a deficit for fiscal year 2010 but also projects that when enrollment nears capacity in the new permanent structure, the Academy will generate annual surpluses to recover from prior net asset deficits.

The initial losses are typical for a new Academy which may not achieve positive net assets until the third or fourth year of operations due to significant start-up costs.

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

Change in Net Assets

	Year ended June 30, 2009	Year ended ended June 30, 2008	Change
Operating Revenues:			
Foundation	$897,667	$448,823	$448,844
Charges for Services	55,814	22,019	33,795
Miscellaneous	716	0	716
Non-Operating Revenues:			
Federal/State Restricted Grants	100,759	23,741	77,018
Total Revenues	$1,054,956	$494,583	$560,373
Operating Expenses:			
Building	136,076	76,286	59,790
Purchased Services	1,131,756	820,491	311,265
Depreciation	30,725	22,943	7,782
General Supplies	32,522	87,976	(55,454)
Other Operating Expense	18,691	26,525	(7,834)
Non-Operating Expenses:			
Interest	130,045	59,763	70,282
Total Expenses	$1,479,815	$1,093,984	$385,831
Total Increase (Decrease) in Net Assets	($424,859)	($599,401)	$174,542

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

Management expects enrollment to continue to grow at a significant pace as the Academy adds another grade level in the fall of 2010 and 2011. By having high retention rates and filling kindergarten sections each year, the Academy should be able to grow to capacity without having to recruit additional students for its additional grade levels. Management's goal is to operate at or near full enrollment capacity which will enable the Academy to achieve surpluses and eventually eliminate the current net asset deficit.

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2009, the Academy had $189,854 (net of accumulated depreciation) invested in capital assets. The following table summarizes Capital Asset activity for the fiscal year ended June 30, 2009:

	June 30, 2009	June 30, 2008	Increase (Decrease)
Leasehold Improvements	$34,783	$34,783	$0
Less: Accumulated Amortization	(2,319)	0	(2,319)
	$32,464	$34,783	($2,319)
Computers	$97,388	$97,388	$0
Less: Accumulated Depreciation	(58,694)	(39,216)	(19,478)
Net Capital Assets:	38,694	58,172	(19,478)
Furniture and Fixtures	137,898	64,984	72,914
Less: Accumulated Depreciation	(19,202)	(10,273)	(8,929)
Net Capital Assets:	118,696	54,711	63,985
Net Capital Assets	$189,854	$147,666	$42,188

At the June 30, 2009, the Academy had $103,702 of capital lease obligations for technology and furniture and fixtures outstanding. Of that amount $20,763 is due within one year. For further information regarding the Academy's debt, refer to Note 12 to the basic financial statements.

Economic Factors

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

Operations

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

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact Robert Lotz, Treasurer for Cornerstone Academy, 3333 Chippewa Street, Columbus, Ohio 43204.

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CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2009

Assets:	
Current assets:	
Cash and Cash Equivalents	$ 25,753
Intergovernmental Receivable	15,557
Prepaid Expense	4,326
Total current assets	45,636
Noncurrent assets:	
Capital Assets, net of Accumulated Depreciation	189,854
Total assets	$ 235,490
Liabilities:	
Current liabilities:	
Accounts Payable, Trade	$ 65,141
Accounts Payable, Related Party	1,405,721
Accrued Liabilities	707
Current Portion of Long-term Debt	20,763
Total current liabilities	1,492,332
Noncurrent liabilities:	
Noncurrent Portion of Long-term Debt	82,939
Total noncurrent liabilities	82,939
Total liabilities	1,575,271
Net Assets	
Invested in Capital Assets, Net of Related Debt	86,152
Restricted Net Assets	65
Unrestricted Net Assets	(1,425,998)
Total Net Assets	$ (1,339,781)

See Accompanying Notes to the Basic Financial Statements

CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

Operating Revenues:	
Community School Foundation	$ 897,667
Charge for Services	55,814
Miscellaneous	716
Total Operating Revenues	954,197
Operating Expenses:	
Building	136,076
Purchased Services	1,131,756
Depreciation	30,725
General Supplies	32,522
Other Operating Expenses	18,691
Total Operating Expenses	1,349,770
Operating Loss	(395,573)
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	100,759
Interest Expense	(130,045)
Net Nonoperating Revenues and Expenses	(29,286)
Change in Net Assets	(424,859)
Net Assets Beginning of Year	(914,922)
Net Assets End of Year	$ (1,339,781)

See Accompanying Notes to the Basic Financial Statements

CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Foundation Receipts	$ 812,527
Charge for Services	55,814
Miscellaneous	716
Cash Payments to Suppliers for Goods and Services	(774,116)
Net Cash Provided by Operating Activities	94,941
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Short-term Financing Payments	(124,107)
Federal and State Grant Receipts	97,320
Net Cash Used for Noncapital Financing Activities	(26,787)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Lease Interest Payments	(5,889)
Capital Lease Principal Retirement	(42,891)
Net Cash Used for Capital and Related Financing Activities	(48,780)
Net Increase in Cash and Cash Equivalents	19,374
Cash and Cash Equivalents - Beginning of the Year	6,379
Cash and Cash Equivalents - Ending of the Year	$ 25,753
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	$ (395,573)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	30,725
Changes in assets and liabilities:	
Increase in Prepaid Expense	(3,163)
Decrease in Accounts Payable, Trade	(69,186)
Increase in Accounts Payable, Related Party	532,138
Net Cash Provided by Operating Activities	$ 94,941

Noncash Capital and related financing activity
Capital lease obligations of $72,914 were incurred when the Academy entered into a lease for security, cabling, paging, and telephone systems.

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Description of the School

The Cornerstone Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in kindergarten and Grade 1 through Grade 6. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operation. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ohio State Board of Education commencing on July 1, 2000. The Academy began the 2005-06 fiscal year under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2010. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 15.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus

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

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the period ended June 30, 2009.

F. Capital Assets

The Academy's capital assets during the year ended June 30, 2009 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. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

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

Description	Useful Lives
Furniture, Fixtures, and Equipment	5-20 years

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2009, the Academy reported $65 of restricted net assets that was a result of unspent grant receipts and $86,152 net assets invested in capital assets net of related debt.

H. Operating Revenues and Expenses

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

I. Estimates

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

J. Economic Dependency

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

Note 3 – Changes in Accounting Principles

There were no changes in accounting principles implemented during 2009 that would have a material effect on the financial statements.

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, 2009, the carrying value of the Academy's deposits totaled $25,753 and the bank balance totaled $33,558. The bank balance was covered by federal depository insurance. The Academy has no investments at year end.

Note 5 – Receivables

At June 30, 2009, the Academy had intergovernmental receivables, in the amount of $15,557. The receivables are expected to be collected within one year.

Grant	Amount
Title I	$13,701
Title II-A	291
IDEA Part B	580
Child Nutrition Program	985
Total Intergovernmental Receivable	$15,557

Note 6 - Capital Assets

Capital asset activity for the period July 1, 2008 to June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Depreciable Capital Assets				
Leasehold Improvements	$34,783	$0	$0	$34,783
Computer Technology	97,388	0	0	97,388
Furniture & Equipment	64,984	72,914	0	137,898
Total at Historical Cost	197,155	72,914	0	270,069
Less: Accumulated Depreciation				
Leasehold Improvements	0	(2,319)	0	(2,319)
Computer Technology	(39,216)	(19,478)	0	(58,694)
Furniture & Equipments	(10,273)	(8,929)	0	(19,202)
Capital Assets, Net	$147,666	$42,188	$0	$189,854

Note 7 - Risk Management

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the Academy contracted with Brown & Brown of Marmora through The Hartford for property and general liability insurance. The policy calls for general liability coverage of $1,000,000 single occurrence limit and $2,000,000 aggregate. The Academy also carried excess/umbrella liability coverage of $10,000,000.

B. Workers' Compensation

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

C. Other Employee Benefits

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

Note 8 – Purchased Services

For fiscal year ended June 30, 2009, purchased service expenses were for the following services:

Purchased Services	June 30, 2009
Personnel Services	$743,236
Building Services	91,531
Food Services	32,578
Student Services	47,161
Instructional and Administrative Services	155,856
Professional Services	14,984
Sponsor Services	26,504
Advertising	19,906
	$1,131,756

Note 9 – Defined Benefit Pension Plans

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

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under **Employers/Audit Resources.**

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09%. The remaining 4.91% of the 14%employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were $13,918, $8,602 and $224 respectively; 78 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System

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 (888) 227-7877, 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'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.

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (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, 2009, 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 2009, 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, 2009, 2008 and 2007 were $52,871, $43,888 and $1,379 respectively; 100 percent has been contributed for the fiscal year 2009, and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for the fiscal year 2009 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, 2009, none of the Academy staff have elected Social Security.

Note 10 – Postemployment Benefits

A. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was $96.40, SERS' reimbursement to retirees was $45.50.

Note 10 – Postemployment Benefits (Continued)

A. School Employees Retirement System (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation is .75%. The Academy's contributions for the years ended June 30, 2009 and 2008 were $1,140 and $619 respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2009, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy contributes assigned to health care for the years ended June 30, 2009, 2008, and 2007 were $6,321, $3,376, and $106, respectively.

The SERS Retirement Board establishes the rules for the premiums paid to the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plain selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report.* The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under **Employers/Audit Resources.**

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 or by calling (888) 227-7877.

Note 10 – Postemployment Benefits (Continued)

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 2009, 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, 2009, 2008, and 2007 were $4,067, $3,376 and $106 respectively; 100 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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, 2009.

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. However, in the opinion of management, any such review will not have a material adverse effect on the overall financial position of the Academy at June 30, 2009.

Note 12 – Capital Lease-Lessee Disclosure

The Academy entered into several lease agreements between fiscal years 2006 and 2008 for the purchase of technology (computers), furniture and equipment for an original cost of $162,375. In addition, in fiscal year 2009, the Academy entered into a lease agreement for the purchase of security, cabling, paging and telephone systems for an original cost of $72,914. The Academy's lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases". The equipment has been capitalized in the amount of $235,288, the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows for June 30, 2009:

Note 12 – Capital Lease-Lessee Disclosure (Continued)

Year Ending June 30	Technology
2010	$ 28,486
2011	28,486
2012	28,486
2013	23,706
2014	14,860
Total future minimum lease payments	124,024
Less: amount representing interest	(20,322)
Present value of future minimum lease payments	$ 103,702

A liability for capital lease obligations in the amount of $103,702 is reported on the Statement of Net Assets for year ended June 30, 2009. Of this amount, $20,763 is a current liability due within one year and $82,939 is a long-term liability due in more than one year. The following table summarizes the capital lease activity for the year ended June 30, 2009:

Capital Lease Liability at June 30, 2008	$ 73,679
Capital Lease addition during fiscal year ended June 30, 2009	72,914
Principal payments during fiscal year ended June 30, 2009	(42,891)
Capital Lease Liability at June 30, 2009	$103,702

Note 13 – Building Lease

In September 2008, the Academy entered into a lease agreement with Mosaica Columbus LLC, an affiliated company of Mosaica Education, Inc. for the use of a school facility located at 6025 East Walnut Street, Westerville, OH. During fiscal year 2009, the facility was under construction and was not available for use. As such, rental payments were not incurred during fiscal 2009 but will commence July 2009, the building construction estimated completion date. The building is on 5.0 acres of land and is approximately 40,000 square feet. The lease term is fifteen years through June 2024. Lease payments will be $45,833 per month with inflation escalations each succeeding year beginning in July 2010. Excluding annual inflation rent adjustments, the following summarizes the lease commitment for the Academy:

Fiscal Year End June 30,	Annual Rent
2010	$ 550,000
2011	550,000
2012	550,000
2013	550,000
2014	550,000
2015-2019	2,750,000
2020-2024	2,750,000
Total Lease Commitment	$8,250,000

Note 13 – Building Lease (Continued)

Moving into the new facility will enable the Academy to end its lease for modular building units used in 2008-09 for classrooms and administration. The monthly rent is $7,190. The lease for these modulars termed at the end of the fiscal year.

Note 14 –Tax Exempt Status

The Academy completed their application for tax-exempt status under 501(c) 3 of the Internal Revenue Code on May 11, 2000 and was approved for tax-exempt status on October 31, 2000. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

Note 15 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for the period ending June 30, 2009 was $131,870.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc. employees working at the Academy, and other costs related to providing educational and administrative services.

At June 30, 2009, the Academy had payables to Mosaica Education in the amount of $1,405,721.

The following is a schedule of all expenses billed by Mosaica Education, Inc. as of the fiscal year ended June 30, 2009:

Payables at June 30, 2008		873,583
Management Fee Additions	June 30, 2009	
Payroll	$511,858	
Management Fee	83,341	
Expense Reimbursements	48,565	
Interest/Finance Charges	121,196	
Total	$764,960	
Payments on Related Party Payable	($232,822)	
Payables at June 30, 2009		1,405,721

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

Note 16 – Sponsor

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 1, 2005. As part of this contract, the Sponsor is entitled to a maximum of 3% of the total state funds. Total amount due and paid for year ended June 30, 2009 was $26,504.

Note 17– Management's Plan and Subsequent Events

At June 30, 2009, the Academy had a net asset deficit of $1,339,781. As further discussed in Note 15, a significant portion of that net asset deficit is being funded by the payable of $1,405,721 to Mosacia Education. As of January 31, 2010 the Academy net asset deficit had increased to $1,595,716.

The Academy, with financial backing from its management company, has completed the construction of a permanent facility to replace the temporary modular structures currently being used. Management is projecting a deficit for fiscal year 2010. With the Academy moving into the permanent facility on July 24th, 2009, management believes that the Academy is in a strong position to grow enrollment to or near capacity as a result of having a facility designed for educating children, strong community reputation for academic achievement and active advertising via print, radio, mailings and parent referrals. This may allow the Academy to begin to generate annual surpluses that will, over time, allow a recovery from the existing cumulative deficits.

Subsequent to year end, construction on the new permanent school facility was completed. The Academy moved into the new facility July 24th, 2009. Enrollment for the 2009-2010 school year has increased to 260 from 150 at the end of fiscal 2009.

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

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

To the Board of Directors:

We have audited the basic financial statements of Cornerstone Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2009, and have issued our report thereon dated March 12, 2010, wherein we noted the Academy has suffered recurring losses from operations and has a net asset deficiency. 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 statements, 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 statement 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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies 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 matters that we reported to the Academy's management in a separate letter dated March 12, 2010.

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*.

We intend this report solely for the information and use of the management, Board of Directors, and St. Aloysius Orphanage. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 12, 2010

Mary Taylor, CPA
Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

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

1. We noted the Board adopted an anti-harassment policy at its meeting on October 18, 2007.

2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):

   (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;

   (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;

   (3) A procedure for reporting prohibited incidents;

   (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

   (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

   (6) A procedure for documenting any prohibited incident that is reported;

(7) A procedure for responding to and investigating any reported incident;

(8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

(9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

(10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 12, 2010

Mary Taylor, CPA
Auditor of State

CORNERSTONE ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 6, 2010

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