



Dave Yost • Auditor of State

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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Dave Yost • 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, 2010, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Columbus Preparatory Academy, Franklin County, Ohio, as of June 30, 2010, and the change 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 18 to the financial statements, the Academy has suffered recurring losses from operations (\$2,167,540) and has a net asset deficiency (\$3,075,262) that raise substantial doubt about its ability to continue as a going concern. Note 18 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2011 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the 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. The federal awards receipt and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 7, 2011

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED*

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, 2010. 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 sixth year of operation during fiscal year 2010 serving grades kindergarten through eighth grade. Enrollment varied during the year but finished with 640 students, an 80 student increase over fiscal year end 2009.

Key highlights for fiscal year 2010 are as follows:

- Net assets decreased \$841,138 as compared to \$247,757 in the prior fiscal year.
- The Academy had an operating loss of \$2,167,540 as compared to an operating loss of \$1,150,772 in the prior fiscal year.
- The operating loss for fiscal 2010 was alleviated by \$1,489,387 of Federal and State Restricted Grants.

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 the 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, 2010
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets for 2010 compared to 2009:

Table 1
Net Assets

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<u>Assets:</u>			
Current Assets	\$244,723	\$263,348	(\$18,625)
Capital Assets	169,437	211,832	(42,395)
Total Assets	<u>414,160</u>	<u>475,180</u>	<u>(61,020)</u>
<u>Liabilities:</u>			
Current Liabilities	2,467,962	2,400,207	67,755
Long-Term Liabilities	1,021,460	309,097	712,363
Total Liabilities	<u>3,489,422</u>	<u>2,709,304</u>	<u>780,118</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	18,110	34,247	(16,137)
Restricted for Other Purposes	31	0	31
Unrestricted	<u>(3,093,403)</u>	<u>(2,268,371)</u>	<u>(825,032)</u>
Total Net Assets	<u><u>(\$3,075,262)</u></u>	<u><u>(\$2,234,124)</u></u>	<u><u>(\$841,138)</u></u>

Total net assets decreased \$841,138. 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. Enrollment at the end of fiscal 2010 was 640 students, an increase of 80 students over fiscal year end 2009. The capacity of the current facility is approximately 725 students. This includes a recent renovation of the second floor that expanded the enrollment capacity by approximately 50 students. For the fall of 2011, the Academy's enrollment is 687 students.

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 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 programs are being made available by delaying payment on invoices from the Academy's management company for certain rent, management services, operating expenses and personnel services.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2010 as compared to 2009.

Table 2
Change in Net Assets

	2010	2009	Change
<u>Operating Revenues:</u>			
Foundation	\$3,766,982	\$3,840,306	(\$73,324)
Charges for Services	44,458	128,618	(84,160)
Miscellaneous	23,405	30,870	(7,465)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	1,489,387	1,014,535	474,852
Total Revenues	<u>\$5,324,232</u>	<u>\$5,014,329</u>	<u>\$309,903</u>
<u>Operating Expenses:</u>			
Building	1,047,798	894,006	153,792
Purchased Services	4,586,471	3,961,101	625,370
Depreciation	42,395	43,973	(1,578)
General Supplies	265,562	182,916	82,646
Other Operating Expense	60,159	68,570	(8,411)
<u>Non-Operating Expenses:</u>			
Interest	162,985	111,521	51,464
Total Expenses	<u>\$6,165,370</u>	<u>\$5,262,087</u>	<u>\$903,283</u>
Total Increase (Decrease) in Net Assets	<u>(\$841,138)</u>	<u>(\$247,758)</u>	<u>(\$593,380)</u>

Fiscal year 2010 showed an increase in revenues and expenses which is primarily due to an increase in enrollment. Furthermore, in fiscal 2010, the Academy recognized \$300,000 of organizational and development costs incurred during the pre-opening stage of the Academy.

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, 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, 2010
UNAUDITED
(Continued)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the Academy had \$169,437 invested in capital assets (net of accumulated depreciation and related capital leases payable) for computer and other equipment, a decrease of \$16,137. The following table shows fiscal year 2010 compared to 2009:

Capital Assets at June 30 (Net of Depreciation)

	2010	2009	Change
Computers	\$9,396	\$36,208	(\$26,812)
Furniture & Equipment	32,742	36,634	(3,892)
Food Service Equipment	5,382	5,990	(608)
Leasehold Improvements	121,917	133,000	(11,083)
 Total Capital Assets - net	 169,437	 211,832	 (42,395)

The decrease in the computer equipment primarily represents the depreciation expense for the year. In fiscal 2009, the Academy purchased with capital lease financing an HVAC unit which is included in furniture and equipment. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2010, the Academy had \$1,081,626 in notes and capital leases outstanding, of which \$60,166 is due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2010.

Outstanding Debt, at Year End

	2010	2009	Change
Capital Leases Payable	\$151,327	\$177,585	(\$26,258)
Mosaica Education Promissionary Notes	930,299	663,631	266,668
Total	\$1,081,626	\$841,216	\$240,410

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)*

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.

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 question concerning this report, please contact Brenda Neff, Treasurer for Columbus Preparatory Academy, 2255 Kimberly Parkway East, Columbus, Ohio, 43232.

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 60,349
Accounts Receivable	7,692
Intergovernmental Receivable	176,682
Total current assets	<u>244,723</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	169,437
Total assets	<u>414,160</u>

Liabilities:

Current Liabilities:

Accounts Payable, Trade	238,112
Accounts Payable, Related Party	2,168,511
Accrued Expenses	1,173
Current Portion of Long-term Debt	60,166
Total current liabilities	<u>2,467,962</u>

Noncurrent liabilities:

Non Current Portion of Long-term Debt	1,021,460
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Total liabilities	<u>3,489,422</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	18,110
Restricted Net Assets	31
Unrestricted Net Assets	(3,093,403)
Total Net Assets	<u>\$ (3,075,262)</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, 2010**

Operating Revenues:	
Community School Foundation	\$ 3,766,982
Charges for Services	44,458
Miscellaneous	23,405
Total Operating Revenues	<u>3,834,845</u>
Operating Expenses:	
Building	1,047,798
Purchased Services	4,586,471
Depreciation	42,395
General Supplies	265,562
Other Operating Expenses	60,159
Total Operating Expenses	<u>6,002,385</u>
Operating Loss	<u>(2,167,540)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	1,489,387
Interest Expense	(162,985)
Net Nonoperating Revenues and Expenses	<u>1,326,402</u>
Change in Net Assets	(841,138)
Net Assets (Deficit) Beginning of Year	<u>(2,234,124)</u>
Net Assets (Deficit) End of Year	<u><u>\$ (3,075,262)</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, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 3,759,474
Charge for Services	37,560
Other Operating Receipts	23,405
Cash Payments to Suppliers for Goods and Services	<u>(5,161,326)</u>
Net Cash Used for Operating Activities	<u>(1,340,887)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Note Payable Principal Payments	(33,333)
Short-term Financing Payments	(87,867)
Federal and State Grant Receipts	<u>1,466,297</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,345,097</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Lease Interest Payments	(14,553)
Capital Lease Principal Retirement	<u>(26,258)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(40,811)</u>

Net Increase in Cash and Cash Equivalents	(36,601)
Cash and Cash Equivalents - Beginning of the Year	<u>96,950</u>
Cash and Cash Equivalents - Ending of the Year	<u><u>60,349</u></u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	<u>(2,167,540)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	42,395
Changes in assets and liabilities:	
Increase in Receivables	(29,966)
Decrease in Prepaid Expense	35,078
Increase in Accounts Payable, Trade	85,584
Increase in Accounts Payable, Related Party	393,562
Increase in Notes Payable	<u>300,000</u>
Net Cash Used for Operating Activities	<u><u>\$ (1,340,887)</u></u>

See Accompanying Notes to the Basic Financial Statements

The Academy entered into a promissory note agreement with Mosaica Education, Inc. for \$300,000 as part of the updated management agreement that the Academy would pay Mosaica Education, Inc for costs incurred during its start-up in 2004.

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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 and subsequently renewed for a ten year term set to expire on June 30, 2018. 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 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's Governing Board also serves as the Board for Columbus Arts and Technology Academy.

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

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, 2010
(Continued)**

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 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 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, 2010.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2010, 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 2010 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, 2010
(Continued)**

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>
Computers, Furniture and Equipment	5-20 years
Leasehold Improvements	Remaining term of lease

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, 2010, there was \$31 of net assets restricted by enabling legislation.

The statement of net assets reports \$18,110 invested in capital assets net of related debt.

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

There were no changes in accounting principles implemented during 2010 that would have a material effect on the financial statements.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(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, 2010 the bank balance of Academy's deposits was \$78,492. 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, 2010, the Academy had intergovernmental receivables, in the amount of \$176,682. The receivables are expected to be collected within one year.

Grant	Amount
Title I A	\$ 65,151
Title I ARRA	\$ 46,228
IDEA-B	14,105
IDEA ARRA	3,744
SERS Overfunding	15,560
School Counselor Grant	14,080
National School Lunch Program	8,748
State Foundation Adjustment	7,508
Title IV	1,558
Total Intergovernmental Receivables	\$ 176,682

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Furniture & Equipment	\$ 44,996	\$ -	\$ -	\$ 44,996
Computers	208,010	-	-	208,010
Leasehold Improvements	133,000	-	-	133,000
Total Capital Assets	386,006	-	-	386,006
Less Accumulated Depreciation	(174,174)	(42,395)	-	(216,569)
Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 211,832	\$ (42,395)	\$ -	\$ 169,437

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

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 2010, 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:

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	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Bodily Injury Limit	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	8,000,000
Aggregate Limit	8,000,000
Excess/Umbrella Liability:	
Building&BPP	8,896,500

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, 2009 through June 30, 2010, purchased service expenses were as follows:

Purchased Service	Amount
Personnel Services	\$2,705,318
Instructional and Administrative Services	1,099,218
Building Services	316,265
Food Service	258,574
Student Services	91,887
Sponsor Services	75,189
Professional Services	31,231
Advertising	8,789
Total	<u><u>\$4,586,471</u></u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 9 – Defined Benefit Pension Plans

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

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer pension plan. SERS provides retirement 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 2010, 12.74 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, 2010, 2009 and 2008 were \$40,981, \$33,542 and \$27,774, respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

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, 2010, 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, 2010, 2009 and 2008 were \$225,670, \$200,075 and \$161,687, respectively; 76 percent has been contributed for the fiscal year 2010, and 100 percent for fiscal years 2009 and 2008.

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, 2010, 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, 2010
(Continued)**

Note 10 – Postemployment Benefits (Continued)

A. School Employees Retirement System (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 2010, 0.5 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, 2010, 2009 and 2008 were \$1,608, \$15,306 and \$12,674, respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009 and 2008 were \$2,448, \$2,417 and \$2,001, respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent has been contributed for fiscal years 2009 and 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 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 2010, 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, 2010, 2009 and 2008 were \$17,359, \$15,390 and \$12,437, respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

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 affect on the overall financial position of the Academy at June 30, 2010.

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. An audit of the 2009-10 school year indicated that the Academy was underfunded \$7,508. This amount is included in Intergovernmental Receivables (see Note 5).

Note 12 – Building Leases

The Academy has entered into a lease for the period from January 2005 through December 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 16. Net occupancy costs incurred totaled \$1,047,798 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 summarizes the occupancy costs for the Academy:

Base rent	\$851,017
Property taxes	216,781
Less: Rental income from Mosaica Education for office space	<u>(20,000)</u>
Net Occupancy Costs	<u>\$1,047,798</u>

Property taxes are accrued but remain unpaid. The owner / landlord has filed for property tax exemption under Ohio Revised Code 5709.07 and 3314.08. The application was pending at June 30, 2010. However, there is a case pending before the Ohio State Supreme Court that may affect the property tax exemption for public schools that pay rent to for-profit lessors (see Note 19). As of June 30, 2010, accrued property taxes total \$887,771.

There are scheduled inflationary rent adjustments (lesser of 5% or CPI factor) effective January 1 once every two years. The lease also stipulates that renovation investments in the building by the owner will cause the rent to increase by an annual factor of 9.25% - 10% of the investment. During fiscal 2010, the owner invested no funds into the property.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 12 – Building Leases (Continued)

The following is a schedule of the future minimum payments for base rent required under the lease as of June 30, 2010 (does not include additional building investments by the owner / landlord or facility costs passthroughs):

Fiscal Year Ending June 30	Amount
2011	870,857
2012	888,485
2013	914,399
2014	932,909
2015	960,119
2016-2019	4,579,547
Total minimum lease payments	\$9,146,316

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2010 were as follows:

	Balance 6/30/2009	Additions	Reductions	Balance 6/30/2010	Amount Due Within One Year
Mosaica Education, Inc. Promissory Note	\$663,631	\$300,000	(\$33,333)	\$930,298	\$33,333
Capital Leases Payable	177,585	0	(26,257)	151,328	26,833
Long-Term Obligations	\$841,216	\$300,000	(\$59,590)	\$1,081,626	\$60,166

Mosaica Education, Inc. Promissory Note- On December 7, 2005, the Academy entered into a \$763,631 promissory note with Mosaica Education, Inc., a related party (see Note 16), for the outstanding accounts payables. The promissory note has an interest rate of 9.0 percent and will mature in fiscal year 2011. Mosaica and the Academy's Board of Directors have agreed to incorporate this promissory note into a new non-interest bearing note with an extended maturity date. As of the date of this report, the new note has not been executed. During fiscal year 2010 the Academy paid no funds against the outstanding principal balance. Furthermore, no principal retirement is projected for fiscal year 2011. Interest expense incurred on this promissory note for the fiscal years ended June 30, 2010 and 2009 was \$59,727 and \$59,915, respectively.

Mosaica Education, Inc. Promissory Note- In July 2009, the Academy executed a non-interest bearing \$300,000 promissory note payable to Mosaica Education, Inc., a related party (see Note 16), to reimburse Mosaica for organizational and development costs incurred during the pre-opening stage of the Academy. The note is payable in 108 equal monthly installments of \$2,778 with a final installment due in June 2018.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 14 – Capital Lease-Lessee Disclosure

In fiscal 2009, the Academy entered into three capitalized leases for the purchase of: HVAC unit, computer equipment, software, furnishings and classroom supplies. The leases 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. The lease terms range from 60 to 84 months with a combined monthly base payment of \$3,474. The following is a schedule of the future minimum lease payments required under the capital leases:

Year Ending <u>June 30,</u>	Base Payments <u>Required</u>
2011	39,609
2012	35,790
2013	35,790
2014	29,818
2015	25,552
Thereafter	<u>25,552</u>
Total future minimum lease payments	\$192,111
Less: amount representing interest	<u>(40,784)</u>
Present value of future minimum lease payments	<u>\$151,327</u>

The following summarizes the capital lease activity for the year ended June 30, 2010:

	<u>Amount</u>
Capital Leases Payable - June 30, 2009	<u>\$177,585</u>
Add: Capital Lease additions	0
Less: Capital Lease principal paydowns	<u>(26,258)</u>
Capital Leases Payable - June 30, 2010	<u><u>\$151,327</u></u>

Note 15 –Tax Exempt Status.

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

Note 16 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for variety of services including management of personnel and human resources, board relations, 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 statements, budgeting, 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 2010 was \$662,603.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

Note 16 – Related Party Transactions/Management Company (Continued)

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 2010 were \$3,246,213.

At June 30, 2010, the Academy had payables to Mosaica Education, Inc. in the amount of \$2,168,511. The following is a schedule of payables owed to Mosaica Education, Inc.

	<u>Amount</u>
Building Rent and Tax Passthrough	\$1,100,525
Payroll	654,891
Management Fees	357,404
Interest / Finance Charges	34,890
Other	<u>20,801</u>
Total at June 30, 2010	<u>\$2,168,511</u>

Note 17 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) through June 30, 2018. As part of this contract, the Sponsor is entitled to a maximum of 2% of state foundation and other state aid. Total amount due and paid for fiscal year 2010 was \$75,189.

Note 18 – Management’s Plan

For fiscal year 2010, the Academy had an operating loss of \$2,167,540, a decrease in net assets of \$841,138, and a cumulative net asset deficit of \$3,075,262. Projected revenues and expenses for fiscal year 2011 indicate these financial difficulties will continue during next fiscal year. As of January 31, 2011, the Academy’s change in net assets was (\$816,959) and net asset deficit of (\$3,051,083).

Final full-time equivalents students was 640 and 563 students for the fiscal years ending June 30, 2010 and 2009, respectively. Current full-time equivalent student enrollment as of January 2011 was 647 students. Management plans to continue to increase enrollment through active advertising via print, radio, mailings, and through referrals of current parents which will help achieve enrollment closer to the capacity of the facility which, in turn, will generate future surpluses.

Furthermore, management has moved forward with its plans to renovate the second floor of the facility and thereby expand classroom space to allow for more students. The renovated second floor was put into service in the fall of 2010.

Note 19 – Subsequent Events

In October 2010, the Ohio State Supreme Court ruled that not-for-profit schools receiving public funds that enter into facility leases with for-profit lessors are not exempt from property taxes. The result of this decision may cause the Academy to have to remit all current and prior years taxes. The Academy is fully reserved for all potential property tax liability (see Note 12).

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<u>United States Department of Agriculture</u> <i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Federal School Breakfast Program	10.553	\$ 75,967	\$ 75,967
National School Lunch Program	10.555	<u>220,028</u>	<u>220,028</u>
Total U.S. Department of Agriculture-Nutrition Cluster		<u>295,995</u>	<u>295,995</u>
<u>United States Department of Education</u> <i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	498,769	494,317
ARRA- Title I Grants to Local Educational Agencies	84.389	<u>152,163</u>	<u>178,791</u>
Total Title I Grants Cluster		650,932	673,108
Special Education Grants to States	84.027	93,142	100,700
ARRA- Special Education Grants to States	84.391	<u>50,851</u>	<u>45,315</u>
Total Special Education Grants to States Cluster		143,993	146,015
Safe and Drug Free School and Communities State Grants	84.186	7,900	9,791
Education Technology State Grants	84.318	3,883	3,852
State Grants for Innovative Programs	84.298	262	-
Improving Teacher Quality State Grants	84.367	17,709	17,709
School Improvement Grant	84.377	13,898	23,678
ARRA- State Fiscal Stabilization Fund	84.394	<u>256,791</u>	<u>256,791</u>
Total United States Department of Education		<u>1,095,368</u>	<u>1,130,944</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,391,363</u>	<u>\$ 1,426,939</u>

The accompanying notes are an integral part of this schedule.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

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.



Dave Yost • 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 financial statements of Columbus Preparatory Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated March 7, 2011, wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Government's financial statements will not be prevented, or detected and timely corrected.

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

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 7, 2011.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the audit committee, Board of Directors, the Ohio Council of Community Schools, federal awarding agencies and pass-through entities and others within the Academy. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 7, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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 could directly and materially affect each of Columbus Preparatory Academy's major federal programs for the year ended June 30, 2010. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 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 Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated March 7, 2011

We intend this report solely for the information and use of the audit committee, management, Board of Directors, the Ohio Council of Community Schools, federal awarding agencies, pass-through entities and others within the Academy. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 7, 2011

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 AND #84.389 - Title I Grants to Local Education Agencies Cluster CFDA #84.394 - State Fiscal Stabilization Fund
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2010-001

Material Noncompliance – Finding for Recovery Repaid Under Audit

During fiscal year 2010, Christina Greiser was employed by Mosaica Education, Inc. (Management company of the Academy) to perform Title I tutoring services. For the payroll period ending June 30, 2010, the hours paid to Ms. Greiser exceeded the hours documented on her timesheet. As a result, an overpayment of \$150 occurred.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)**

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

FINDING NUMBER 2010-001 (Continued)

Material Noncompliance – Finding for Recovery Repaid Under Audit (Continued)

Pay period ending	Actual Gross Payroll Paid	Gross Payroll Based on Hours Reported	Total Overpayment
6/30/10	\$1,050	\$900	\$150

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att’y Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28, a finding for recovery for public money illegally expended is hereby issued against Brenda Neff, Treasurer, and her bonding company, Cincinnati Insurance Company, jointly and severally in the amount of \$150 in favor of the Columbus Preparatory Academy to the extent that recovery is not obtained from Christina Greiser.

Official’s Response:

The employee agreed to repay the \$150 overpayment to the school. Full Payment was received on March 14, 2011.

3. FINDINGS FOR FEDERAL AWARDS

None

COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Board of Director's Oversight of Federal Funds	No	Reissued in the Management Letter

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INDEPENDENT ACCOUNTANTS REPORT ON APPLYING AGREED-UPON PROCEDURES

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

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 Columbus Preparatory 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;

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- (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;
3. We read the policy, noting it did not include the following requirement from Ohio Rev. Code Section 3313.666 (B):
- (1) A requirement that the Academy administration semiannually provide the president of the board of Directors 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.

Official's Response:

The Board has developed the appropriate policy language and is planning to adopt the updated policy at the next regular Board meeting.

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 the Ohio Council of Community Schools and is not intended to be and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State

March 7, 2011



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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
MARCH 29, 2011**