CORNERSTONE ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

CORNERSTONE ACADEMY
FRANKLIN COUNTY

TABLE OF CONTENTS

TITLE	PAGE

THIS PAGE INTENTIONALLY LEFT BLANK

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying Balance Sheet of the Cornerstone Academy, Franklin County, Ohio, (the Academy) as of June 30, 2003, the related Statement of Revenues, Expenses and Changes in Retained Earnings/Accumulated Deficit and Statement of Cash Flows for the year then ended. 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 *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

February 18, 2004

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

THIS PAGE INTENTIONALLY LEFT BLANK

CORNERSTONE ACADEMY
FRANKLIN COUNTY

BALANCE SHEET
AS OF JUNE 30, 2003

Assets	
Current Assets	
Cash and Cash Equivalents	$ 24,437
Total Assets	$ 24,437
Liabilities and Equity	
Current Liabilities	
Accounts Payable	$ 24,676
State Pension Systems Payable	3,019
Accrued Wages and Benefits	21,876
Total Current Liabilities	49,571
Equity	
Accumulated Deficit	(25,134)
Total Liabilities and Fund Equity	$ 24,437

The accompanying notes to the financial statements are an integral part if this statement.

CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS/ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2003

Operating Revenues	
Foundation Payments	$ 290,788
Day Care and Summer School Fees	119,627
Other Operating Revenues	39,765
Total Operating Revenues	450,180
Operating Expenses	
Salaries	319,713
Fringe Benefits	67,027
Purchased Services	135,496
Materials and Supplies	30,395
Other Operating Expenses	48,351
Total Operating Expenses	600,982
Operating Loss	(150,802)
Non-Operating Revenues	
Interest Earnings	540
State Grants	21,058
Total Non-Operating Revenues	21,598
Net Loss	(129,204)
Retained Earnings Beginning of Year	104,070
Accumulated Deficit End of Year	$ (25,134)

The accompanying notes to the financial statements are an integral part of this statement.

CORNERSTONE ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

Cash Flows used for Operating Activities	
Cash Received from State Foundation/Disadvantaged Pupil Impact Aid	$ 290,788
Cash Received from Fees and Other Sources	159,392
Cash Payments to Suppliers for Goods and Services	(199,124)
Cash Payments to Employees for Services	(329,785)
Cash Payments for Employee Benefits	(68,417)
Net Cash Used For Operating Activities	(147,146)
Cash Flows provided by Noncapital Financing Activities	
Cash Received from State Grants	21,058
Net Cash Provided by Noncapital Financing Activities	21,058
Cash Flows provided by Investing Activities	
Interest on Investments	540
Net Cash Provided By Investing Activities	540
Net Decrease in Cash and Cash Equivalents	(125,548)
Cash and Cash Equivalents at Beginning of Year	149,985
Cash and Cash Equivalents at End of Year	$ 24,437
Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating Loss	(150,802)
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities	
Changes in Assets and Liabilities	
Accounts Payable	15,117
Accrued Wages and Benefits	(11,461)
Total Adjustments	3,656
Net Cash Used For Operating Activities	$ (147,146)

The accompanying notes to the financial statements are an integral part of this statement.

THIS PAGE INTENTIONALLY LEFT BLANK

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

The Academy was approved for operation on February 11, 2000 under a contract by and between the Ohio State Board of Education and the Board of Trustees of the Cornerstone Academy Community School. The Academy commenced official operation on July 1, 2000. The seven-member Board of Trustees is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy's staff of one director (principal) and four full time certificated teachers who provide services to 52 students.

The primary government of the Academy consists of all funds and departments that comprise the legal entity of the Academy. This includes general operations as well as preschool and aftercare programs. The preschool and aftercare programs are not operated under the school charter, however, Academy employees staff these programs that are funded by charges for services and thus, these programs are included in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Enterprise Accounting – Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases and decreases in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

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

D. Cash and Investments

All monies received by the Academy are pooled and deposited in a central bank account. All monies of the Academy are maintained in this account or temporarily used to purchase short-term investments. For purposes of the statement of cash flows and the presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation and the State Disadvantaged Pupil Impact Aid (DPIA) Programs. Revenues received from these programs are recognized as operating revenues (Foundation Payments) in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

Amounts awarded under the above programs for 2003 totaled $311,846.

F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the dates received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Improvements are capitalized, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

At June 30, 2003, the Academy does not possess any fixed assets that met the policy; therefore, fixed assets are not reflected on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Charges for Services

The Academy charges students tuition to participate in the preschool and aftercare programs. The operating revenue from these programs is recognized when earned and measurable.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means. The Academy, records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Academy has identified as probable of receiving benefits in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Academy's termination policy. The Academy records a liability for accumulated unused sick leave for classified employees and certified employees and administrators after eight years of service.

At June 30, 2003, there were no vacation and sick leave benefits that met the policy; therefore, a liability for compensated absences is not reflected on the financial statements.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: The carrying value of the Academy's deposits totaled ($3,973), and the bank balance totaled $12,228, all of which was covered by the Federal Depository Insurance Corporation. The negative $3,973 demand deposit for 2003 is due to movement of monies from the regular bank account to the repurchase investment accounts at 6/30/03.

Investments: The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at the fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterpartys trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name.

3. DEPOSITS AND INVESTMENTS (Continued)

Investments of the school as of June 30, 2003 were as follows:

Investments	Category 3	Fair Value
Repurchase Agreement	$28,410	$28,410
Demand deposits		(3,973)
Total Deposits and Investments		$ 24,437

The Academy's agent holds securities collateralizing repurchase agreements.

4. 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 2003, the Academy contracted with Archer-Meek-Weiler Agency, Inc. through Cincinnati Insurance Company for property and general liability insurance. The policy calls for coverage of $1,000,000 single occurrence limit and $3,000,000 aggregate and $1,000 deductible.

B. Workers' Compensation

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

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statue 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.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the year ended June 30, 2003, 2002 and 2001 were $17,469, $ 11,754 and $529 respectively; 100 percent has been contributed for fiscal year 2003.

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Academy’s required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were $36,237, $ 26,162, and $17,170 respectively; 91.66 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for the year ended June 30, 2003, in the amount of $3,019 has been recorded as State Pension Systems payable.

6. POSTEMPLOYMENT BENEFITS

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

6. POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS.

Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $2,787 for fiscal year 2003. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was $3,256 million. For the year ended June 30, 2002, net health care costs paid by STRS were $300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at $14,500. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled $12,466. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses.

Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were $182,946,777 and the target level was $274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

7. 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.

8. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (MEC) – MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to the Schools in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The Academy does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provided computer services in the amount of $6,613 to the Academy for fiscal year 2003.

9. 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, 2003.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State Law. On April 31, 2003 the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and oral arguments were heard. The effect of this suit, if any, on the Academy is not presently determinable.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review resulted in the discovery of an underpayment to the School in the amount of $177. This amount is not reflected on the financial statements.

10. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

11. PURCHASED SERVICES EXPENSES

For fiscal year ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Children's Center for Development Enrichment	$ 24,000
Saint Johns Church (Rent)	40,000
Consulting	7,115
Advertisement	1,594
Utilities	14,282
Metropolitan Educational Center	6,613
Other Purchased Services	41,892
Total Purchased Services	$ 135,496

12. TAX EXEMPT STATUS

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

13. OPERATING LEASE

The Academy entered into an operating lease agreement for use of property. The premises shall be used for an educational program for children. The lease commenced August 21, 2000, and shall terminate on August 21, 2005. The Board will at that time determine renewal of the lease. The monthly charge for rental is $3,333 payable the first of each month. The Academy is responsible for the interior maintenance and repairs, utilities, redecorating, inspections, insurance, and damages to the premises.

14. SUBSEQUENT EVENTS

On July 14, 2003 the Board of Trustees took action that effective July 1, 2003 the Cornerstone Preschool was incorporated and became a separate legal entity. The Academy no longer records revenues or expenses for the Preschool. Total revenues and expenses in fiscal year 2003 totaled $151,181. There were no material assets or liabilities at June 30, 2003 related to the Preschool.

15. MANAGEMENT'S PLANS TO REDUCE DEFICIT

For fiscal year 2003, the Academy had an operating loss ($150,802), net loss ($129,204), accumulated deficit ($25,134), and was also delinquent on some payments to vendors due to the timing of cash flows. Management's plan to reduce the accumulated deficit and cash flow shortages include the following actions:

1. The Board established a Financial Resource Development Committee whose objective is to raise between $35,000 and $50,000. The Financial Resource Development Committee is actively seeking corporate and individual sponsors and developing ideas for fund raising to provide monetary support for the 2003-2004 school year.

2. The Academy is actively applying for several state and federal grants to help with the current cash flow shortages. Management expects these grants will yield an additional $13,000 for the 2003-2004 school year.

Academy management plans on these financing resources to be available through the next fiscal year to help eliminate current and future cash flow shortages and reduce the operating loss. With the above revenues, the Academy is projecting a net loss of less than $10,000 for 2003-2004 school year.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Cornerstone Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 18, 2004. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated February 18, 2004.

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

This report is intended for the information and use of the audit committee, management, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

February 18, 2004

Auditor of State
Betty Montgomery

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CORNERSTONE ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 23, 2004