



**COLUMBUS HUMANITIES ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Columbus Humanities, Arts & Technology Academy
Franklin County
1729 Northland Park Avenue
Columbus, Ohio 43229

To the Governing Board:

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

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

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

As discussed in Note 19 to the financial statements, the Academy has a deficit net asset balance of (\$1,292,737) and operating loss of (\$798,858) and experienced certain financial difficulties during the year. Note 19 describes management's plans regarding these issues.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Mary Taylor, CPA
Auditor of State

July 11, 2007

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

The discussion and analysis of the Columbus Humanities Arts & Technology Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

Highlights

The Academy finished its second year of operation during fiscal year 2006 serving grades kindergarten through sixth grade. Enrollment varied during the year but averaged 340 students.

Key highlights for fiscal year 2006 are as follows:

- Net assets decreased \$298,070
- Academy had an operating loss of \$798,858 compared to an operating loss of \$963,945 in fiscal year 2005.
- Total assets decreased \$51,443, or 2.97 percent, mainly due to a \$37,011 decrease in prepaid expense.
- Total liabilities increased \$246,626, or 9.05 percent, due to a \$6,283 increase in accrued wages/benefits payable, \$59,793 increase in accrued interest payable and \$740,097 increase in long term debt. The increase was offset by a 419,315 decrease in accounts payable-related party.

Overview of the Financial Statements

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

Financial Analysis of the Academy as a Whole

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

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)*

Table 1 provides a summary of Academy's net assets for 2005 compared to 2006:

Table 1 Net Assets			
	2006	Restated 2005	Change
<u>Assets:</u>			
Current Assets	\$233,995	\$220,602	\$13,393
Capital Assets	1,443,837	1,508,673	(64,836)
Total Assets	1,677,832	1,729,275	(51,443)
 <u>Liabilities:</u>			
Current Liabilities	1,494,430	1,620,013	(125,583)
Long-Term Liabilities	1,476,139	1,103,930	372,209
	2,970,569	2,723,943	246,626
 <u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	387,304	224,942	162,362
Restricted for Other Purposes	8,717	0	8,717
Unrestricted	(1,688,758)	(1,219,609)	(469,149)
Total Net Assets	(\$1,292,737)	(\$994,667)	(\$298,070)

Total net assets decreased \$298,070. The cause of the decrease was the Board's desire to open the Academy with a program that would be attractive to the families of the area and to offer services and student staff ratios necessary to accelerate learning of students faster than the traditional single grade level gains. At the onset of planning for the opening of the Academy, management and the Board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risk against the enhanced educational opportunities that would be available to students. Based on that analysis, the Board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary program became available by delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and invoices for payroll of Academy staff.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)*

Table 2 reflects the changes in net assets for fiscal year 2006.

Table 2 Change in Net Assets			
	2006	Restated 2005	Change
<u>Operating Revenues:</u>			
Foundation	\$2,160,713	\$1,392,508	\$768,205
Charges for Services	60,584	16,654	43,930
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	676,078	104,304	571,774
Total Revenues	\$2,897,375	\$1,513,466	\$1,383,909
<u>Operating Expenses:</u>			
Salaries	\$933,195	\$786,693	\$146,502
Fringe Benefits	281,024	220,675	60,349
Building	332,100	250,069	82,031
Purchased Services	855,164	532,389	322,775
Depreciation	64,836	59,433	5,403
General Supplies	230,268	254,735	(24,467)
Other Operating Expense	323,568	404,139	(80,571)
<u>Non-Operating Expenses:</u>			
Interest	175,290	0	175,290
Total Expenses	\$3,195,445	\$2,508,133	\$687,312
Total Increase (Decrease) in Net Assets	(\$298,070)	(\$994,667)	\$696,597

Fiscal year 2006 showed an increase in revenues and expenses is primary due to an increase in the number of students from 228 in fiscal year 2005 to 315 in fiscal year 2006 served by the Academy.

Budgeting

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

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the Academy had \$1,443,837 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of \$64,836 or 4.29 percent. The following table shows fiscal year 2006 compared to 2005:

Capital Assets at June 30 (Net of Depreciation)

	2006	2005	Change
Building/Improvements	\$1,436,729	\$1,499,259	(\$62,530)
Furniture & Equipment	7,108	9,414	(2,306)
	\$1,443,837	\$1,508,673	(\$64,836)

The decrease represents the depreciation expense for the year on the building and other equipment. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2006, the Academy had \$2,023,828 in notes and capital leases outstanding, \$547,689 due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2006.

Outstanding Debt, at Year End

	2006	Restated 2005	Change
Capital Leases Payable	\$1,102,572	\$1,418,757	(\$316,185)
Installment Note Payable	921,256	0	921,256
Total	\$2,023,828	\$1,418,757	\$605,071

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

Economic Factors

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

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Operations

Columbus Humanities Arts & Technology Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades K-6. Grade 7 is being added in the 2006-2007 academic year. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests for Information

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

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Assets:

Current assets:

Cash and Cash Equivalents	\$53,136
Intergovernmental Receivable	168,390
Prepaid Expense	12,469
Total current assets	<u>233,995</u>

Noncurrent assets:

Capital Assets, Net of Accumulated Depreciation	1,443,837
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Total Assets: **1,677,832**

Liabilities:

Current liabilities:

Accounts Payable, Trade	221,086
Accounts Payable, Related Party	602,554
Accrued Wages	48,019
Benefits Payable	15,289
Accrued Interest Payable	59,793
Current Portion of Long-Term Debt	547,689
Total current liabilities	<u>1,494,430</u>

Noncurrent liabilities:

Noncurrent Portion of Long-Term Debt	1,476,139
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Total Liabilities: **2,970,569**

Net Assets:

Invested in Capital Assets, Net of Related Debt	387,304
Restricted for Other Purposes	8,717
Unrestricted	(1,688,758)
Total Net Assets:	<u><u>(\$1,292,737)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NETS ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

Operating Revenues:	
Foundation Receipts	\$2,160,713
Charges for Services	60,584
Total Operating Revenues	<u>2,221,297</u>
Operating Expenses:	
Salaries	933,195
Fringe Benefits	281,024
Building	332,100
Purchased Services	855,164
Depreciation	64,836
General Supplies	230,268
Other Operating Expenses	323,568
Total Operating Expenses	<u>3,020,155</u>
Operating Loss	(798,858)
Nonoperating Revenues and Expenses:	
Interest	(175,290)
Federal/State Restricted Grants	676,078
Total Nonoperating Revenues and Expenses:	<u>500,788</u>
Change in Net Assets	(298,070)
Net Assets Beginning of Year (Restated)	<u>(994,667)</u>
Net Assets End of Year	<u><u>(\$1,292,737)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Cash flows from operating activities

Foundation Receipts	\$2,155,431
Charges for Services	\$60,584
Cash Payments to Suppliers for Goods and Services	(2,027,002)
Cash Payments to Employees for Service and Benefits	(1,207,936)
Net Cash Used for Operating Activities	<u>(\$1,018,923)</u>

Cash flow from noncapital financing activities

Federal and State Grants	518,618
Net Cash Provided by Noncapital Financing Activities	<u>518,618</u>

Cash flow from capital and related financing activities

Cash Received from Note Proceeds	921,256
Cash Payments for Interest on the Note	(34,547)
Cash Payments for Capital Lease Debt	(286,185)
Cash Payments for Capital Lease Interest	(80,950)
Net Cash Provided by Capital and Related Financing Activities	<u>519,574</u>

Net Increase in Cash and Cash Equivalents	19,269
Cash and Cash Equivalents-Beginning of the Year	33,867
Cash and Cash Equivalents-Ending of the Year	<u><u>\$53,136</u></u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	(\$798,858)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	64,836
Change in assets and liabilities:	
Decrease in Prepaid Expense	37,611
Increase in Accounts Payable-Trade	90,520
Decrease in Accounts Payable-Related Party	(419,315)
Increase in Accrued Wages and Benefits Payable	6,283
Net Cash Used for Operating Activities	<u>(\$1,018,923)</u>

See Accompanying Notes to the Basic Financial Statements

Noncash operating activities

The Academy's management company paid \$602,554 for operating expenses on behalf of the Academy.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1 - Description of the School

The Columbus Humanities, Arts & Technology Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in grades K-6. Grade 7 is being added in the 2006-2007 academic year. 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 Ohio Council of Community Schools (the Sponsor) for a period of four academic years commencing after July 1, 2004 and ending June 30, 2008. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principals (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 HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(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 school located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2006.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2006, 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 2006 consisted of modular buildings and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	20-25 years
Building and Building Improvements	20-25 years
Furniture, Fixtures, and Equipment	5-20 years

H. Net Assets

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

The statement of net assets reports \$8,717 in restricted net assets related to OASIS and EMIS and \$387,304 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 99% 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

A. Change in Accounting Principles

For the fiscal year ended June 30, 2006, the Academy implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", and GASB Statement No. 47, "Accounting for Termination Benefits."

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 3 – Changes in Accounting Principles (Continued)

A. Change in Accounting Principles (Continued)

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. There was no effect on the financial statements.

B. Accounting Change

During the fiscal year ended, June 30, 2005, the Academy implemented an accounting change to report the total amount owed by the Academy on a capital lease as long term liabilities on the Statement of Net Assets. The accounting change resulted in the restatement of net assets of June 30, 2005 as follows:

Net Assets balance at June 30, 2005 as reported	(859,641)
Accounting Change for capital leases	<u>(135,026)</u>
Net Asset balance at June 30, 2005 as restated	<u><u>(994,667)</u></u>

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, 2006, the bank balance of Academy's deposits was \$78,762. The bank balance was covered by federal depository insurance which covers deposits up to \$100,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2006, the Academy had intergovernmental receivables, in the amount of \$168,390. The receivables are expected to be collected within one year.

Grant	Amount
Food Service	\$13,255
OAISIS	748
School Foundation	5,282
Title I	78,206
Federal Public Charter School Grant	<u>70,899</u>
Total Intergovernmental Receivables	<u><u>\$168,390</u></u>

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 6 - Capital Assets

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

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Buildings/Improvements	1,556,579	0	0	1,556,579
Furniture & Equipment	\$11,527	0	0	\$11,527
Less Accumulated Depreciation				
Building/Improvements	(57,320)	(62,530)	0	(119,850)
Furniture & Equipments	(2,113)	(2,306)	0	(4,419)
Capital Assets, Net	<u>\$1,508,673</u>	<u>(\$64,836)</u>	<u>\$0</u>	<u>\$1,443,837</u>

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 2006, the Academy contracted with Pashley Insurance Agency 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	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 8 – Purchased Services

For the period July 1, 2005 through June 30, 2006, purchased service expenses were as follows:

Service	Amount
Building/Custodial	\$15,779
Auditing Fees	6,048
Food Service	135,528
Legal Fees	7,891
Management Fee	354,599
Special Education/Nursing	154,836
Sponsor Fee	64,031
Temporary Services	6,262
Training	102,733
Consulting Fees	2,690
Miscellaneous	4,767
Total	<u><u>\$855,164</u></u>

Note 9 – Defined Benefit Pension Plans

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006 and 2005 were \$54,229 and \$12,453 respectively; 100 percent has been contributed for fiscal year 2006 and 2005.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System of Ohio

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006 and 2005, were \$154,377 and \$60,695, respectively; 97 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005. No employees contribute to the DCP and CP for the fiscal year ended June 30, 2006.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 10 – Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$7,160 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$23,126

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(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 effect on the overall financial position of the Academy at June 30, 2006.

B. Litigation

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

The Academy is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operation and pending projects. The Academy management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the Academy.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy is owed \$5,282 by the Ohio Department of Education. This is reported as an intergovernmental receivable on the June 30, 2006 Statement of Net Assets.

Note 12 – Building Leases

The Academy has entered into a lease for the period from July 1, 2004 through June 30, 2007 with EFA Company, LLC a wholly owned subsidiary of Mosaica Education, Inc. for the use of the parking lot as space for the Academy building modulars and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 17. Payments made totaled \$322,100 for the fiscal year.

The following is a schedule of the future minimum payments required under the operating as of June 30, 2006:

Fiscal Year Ending June 30	Amount
<u>2007</u>	<u>\$128,603</u>

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2006 were as follows:

	Balance 6/30/2005	Additions	Reductions	Balance 6/30/2006	Amount Due Within One Year
Mosaica Education, Inc. Promissory Note	\$0	\$921,256	\$0	\$921,256	\$146,104
Capital Leases Payable	1,418,757	0	(316,185)	1,102,572	401,585
Long-Term Obligations	<u>\$1,418,757</u>	<u>\$921,256</u>	<u>(\$316,185)</u>	<u>\$2,023,828</u>	<u>\$547,689</u>

Mosaica Education, Inc. Promissory Note- On May 9, 2006, the Academy entered into a promissory note with Mosaica Education, Inc for the outstanding accounts payables. The promissory note has an interest rate of 9.0 percent and will mature in fiscal year 2011.

The principal and interest requirements to retire the promissory note with Mosaica Education, Inc. outstanding at June 30, 2006, were as follows:

Promissory Note		
Fiscal Year Ending June 30	Principal	Interest
2007	\$181,256	\$17,672
2008	185,000	34,688
2009	185,000	51,337
2010	185,000	67,988
2011	185,000	84,638
Total	<u>\$921,256</u>	<u>\$256,323</u>

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into capitalized leases for the use of modular buildings, computer equipment and furniture. Each lease meets the criteria of capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. Principal payments in 2006 were \$316,185.

	Amount
Property under Capital Lease	\$1,568,106
Less Accumulated Depreciation	(124,269)
Total June 30, 2006	<u>\$1,443,837</u>

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 14 – Capital Lease-Lessee Disclosure (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006.

Capital Lease		
Fiscal Year Ending June 30	Principal	Interest
2007	\$377,491	\$66,812
2008	321,829	38,247
2009	343,731	16,345
2010	59,521	492
Total	<u>\$1,102,572</u>	<u>\$121,896</u>

Note 15 – Operating Leases

In September of 2004, Mosaica Education, Inc. entered into an operating lease for three years with ACC Capital Corporation, for the use of classroom furnishings. Also in September of 2004, Mosaica Education, Inc. entered into a sublease agreement with the Academy for the Academy's use of the classroom furnishings. Total lease payments during fiscal year 2006 for this lease were \$25,840. Estimated minimum lease payments still owed on the operating lease is \$32,300.

Note 16 – Tax Exempt Status

The Academy has not obtained its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy has made no provision for any potential tax liability resulting from not obtaining the Section 501(c)(3) tax-exempt status.

Note 17 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2006 was \$354,599.

At June 30, 2006, the Academy had payables to Mosaica Education, Inc. in the amount of \$602,554.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 17 – Related Party Transactions/Management Company (Continued)

The following is a schedule of payables to Mosaica Education, Inc.

	<u>Amount</u>
Payroll	\$321,134
Management Fee	112,819
Building Rent	111,240
Interest/Finance Charges	19,833
Miscellaneous	<u>37,528</u>
Total June 30, 2006	<u><u>\$602,554</u></u>

Note 18 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools Council (the Sponsor) for a period of four academic years commencing July 1, 2004. As part of this contract, the Sponsor is entitled to a maximum of 3% of all revenues. Total amount due and paid for fiscal year 2006 was \$64,031

Note 19 – Management’s Plan

For fiscal year 2006, the Academy had an operating loss of (\$798,858), net loss of (\$298,070), and net asset deficit of (\$1,292,737). Projected revenues and expenses for fiscal year 2007 indicate these financial difficulties will not be completely eliminated during fiscal year 2007.

The Academy had a net loss for fiscal year 2006. The net loss in fiscal year 2006 of negative \$298,070 was less than the net loss in fiscal year 2005 of negative \$859,641 due to a significant increase in enrollment. Final fiscal year 2005 full-time equivalents student enrollment was 225 students and Final fiscal year 2006 full-time equivalent student enrollment was 338 students. Current full-time equivalent student enrollment as of April 2007 is 339 students.

The Academy’s current lease agreement for the rental of the property in which the classroom modular’s are placed on will expired on July 31, 2007. The Academy is currently seeking an alternative classroom facility for the 2007/2008 school year.

Management plans to continue to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which will help reduce future deficits and operating losses.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Note 20—Subsequent Event

The lease agreement between Columbus Urban Growth Corporation and the Academy for property in which the Academy's school facilities are located expires on July 31, 2007. The Academy is negotiating a building lease agreement for an alternative building location to be used for the 2007-2008 school year.

In addition on June 21, 2007 the Academy entered into a promissory note agreement with Mosaica Education, Inc. The promissory note principal of \$257,554.99 and interest of \$117,831.41 is due to Mosaica Education, Inc. on July 31, 2011.

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**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	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	000557-05PU-(2005-2006)	10.553	\$ 31,890	\$ 31,890
National School Lunch Program	000557-LLP4-(2005-2006)	10.555	92,174	92,174
Total U.S. Department of Agriculture-Nutrition Cluster			<u>124,064</u>	<u>124,064</u>
<u>United States Department of Education</u> <i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	000557-C1S1-2005 000557-C1S1-2006	84.010	(11,334) 112,911	- 158,462
			<u>101,577</u>	<u>158,462</u>
Special Education Grants to States	000557-6BCM-2005 000557-6BSF-2006	84.027	- 44,241	- 38,552
			<u>44,241</u>	<u>38,552</u>
Safe and Drug-Free Schools and Communities_	000557-DRS1-2006	84.186	1,600	-
Innovative Educational Program Strategies	000557-C2S1-2006	84.298	76	-
Improving Teacher Quality State Grants	000557-TRS1-2005 000557-TRS1-2006	84.367	(458) 8,629	- 8,629
			<u>8,171</u>	<u>8,629</u>
Education Technology State Grants	000557-TJS1-2005 000557-TJS1-2006	84.318	1,076 3,066	- 3,067
			<u>4,142</u>	<u>3,067</u>
Public Charter School Grant	0000553-CHS1-2006	84.282	229,101	233,527
Total United States Department of Education			388,908	442,237
TOTAL FEDERAL AWARDS			<u>\$ 512,972</u>	<u>\$ 566,301</u>

The accompanying notes are an integral part of this schedule.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (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.



Mary Taylor, CPA

Auditor of State

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

Columbus Humanities, Arts & Technology Academy
Franklin County
1729 Northland Park Avenue
Columbus, Ohio 43229

To the Governing Board:

We have audited the basic financial statements of the Columbus Humanities, Arts & Technology Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2006, and have issued our report thereon dated July 11, 2007 wherein we noted the Academy had a deficit net asset balance and an operating loss as of June 30, 2006 and experienced certain financial difficulties during the fiscal year. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertion in the financial statements. A reportable condition is described in the accompany schedule of findings and questioned costs as item 2006-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable condition and, accordingly, would not necessary disclose all reportable condition that are also considered material weaknesses. We considered item 2006-003 to be a material weakness. In a separate letter to the Academy's management dated July 11, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2006-001 and 2006-002. In a separate letter to the Academy's management dated July 11, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

Mary Taylor, CPA
Auditor of State

July 11, 2007



Mary Taylor, CPA

Auditor of State

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

Columbus Humanities, Arts & Technology Academy
Franklin County
2255 Kimberly Parkway East
Columbus, Ohio 43232

To the Governing Board:

Compliance

We have audited the compliance of Columbus Humanities, Arts & Technology Academy (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

As described in items 2006-005 through 2006-009 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding eligibility, reporting, activities allowed, allowable cost/cost principles, and level of effort applying to its Title 1 program. In addition, as described in items 2006-006 and 2006-010 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding reporting and period of availability applying to its Public Charter School program. Compliance with those requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Columbus Humanities, Arts & Technology Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

The results of our auditing procedures also disclosed an other instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-004. In a separate letter to the Academy's management dated July 11, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with 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 expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Academy's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-004 through 2006-010.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider items 2006-005 and 2006-007 through 2006-010 to be material weaknesses.

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



Mary Taylor, CPA
Auditor of State

July 11, 2007

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies—CFDA #84.010 Public Charter School Grant—CFDA #84.282
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

FINDING NUMBER 2006-001

Debt Payments In Accordance with Promissory Note Agreement—Noncompliance

The Payment section of the Promissory Note Agreement, dated June 30, 2005 between the Academy and Mosaica Education, Inc., the Academy’s Management Company, for \$921,255.94 states the “Borrower shall pay this loan as outlined below”:

Date	Principal	Interest	Payment
7/31/2006	181,255.94	17,672.45	198,928.39
7/31/2007	185,000.00	34,687.50	219,687.50
7/31/2008	185,000.00	51,337.50	236,337.50
7/31/2009	185,000.00	67,987.50	252,987.50
7/31/2010	185,000.00	84,637.50	269,637.50
	<u>921,255.94</u>	<u>256,322.45</u>	<u>1,177,578.39</u>

On November 1, 2005 Mosaica Education, Inc billed the Academy \$34,547.10 for five months interest on the outstanding balance of the promissory note. The invoice stated that the amount was due upon receipt. On April 10, 2006, the Academy paid Mosaica \$34,547.10 for the interest billed prior to the scheduled payment due date of July 31, 2006.

The Academy should pay Mosaica Education, Inc. the debt obligations as outlined and agreed to in the Promissory Note Agreement. If the Academy chooses to prepay the debt obligation, the prepaid amount should be applied against the outstanding principal of the promissory note.

Officials’ Response

The November 1, 2005 billing in the amount of \$34,547.10 represented accrued interest through November 1st and was an actual liability to the Academy at the time it was billed although it wasn’t due until 7/31/07. When interest through 7/31/07, the initial payment due date, was billed, the \$34,547.10 was not included as it had already been billed/paid. To avoid miscommunication in the future, the Academy will pay Mosaica Education per the note agreement.

FINDING NUMBER 2006-002

Building Lease Payments--Noncompliance

The Lease Agreement for the property in which the Academy’s building modulars are placed states “This Lease is entered into this 1st day of July, 2004, between EFA Company, LLC, a Michigan limited liability company, of 61 Broadway, Suite 2924, New York, NY 10006 (the “Landlord”) and Columbus Humanities Arts & Technology Academy (“Tenant”).

The Academy paid the building lease payments to Mosaica Education, Inc., the Academy’s management company, instead of EFA Company, LLC as stated in the lease. The EFA Company, LLC is a wholly owned subsidiary of Mosaica Education, Inc.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

FINDING NUMBER 2006-002 (Continued)

Building Lease Payments--Noncompliance (Continued)

The Academy should make all lease payments to the EFA Company, LLC as stipulated in the lease agreement.

Officials' Response

Mosaica Education, Inc. has provided a letter to the Academy stating that since the EFA Company, LLC is a wholly owned subsidiary of Mosaica Education, Inc. that exists for the sole purpose of handling real estate and EFA Company, LLC has no employees or bank accounts they have asked the Academy to make all payments under the lease to Mosaica Education, Inc.

FINDING NUMBER 2006-003

GAAP Financial Statement Preparation and Reporting—Reportable Condition/Material Weakness

Financial statements prepared using generally accepted accounting principles (GAAP) enhance the decision making capabilities of officials and department managers charged with the operations of the Academy, and others with regulatory interests in the results of operations and available resources of the Academy. GAAP basis financial statements provide financial statement users with an accurate financial picture of the Academy's results of operations and available resources by including accrued assets, liabilities, revenues and expenses.

However, financial information becomes less valuable with the passage of time. This is primarily because accrued revenues and expenditures become realized. Those relying upon the Academy's financial statements may draw different conclusions if GAAP basis financial statements are not completed in a timely and accurate fashion. Inaccurate and untimely financial statements could possibly lead to decision-making which is not in the best interest of the Academy.

The Ohio Administrative Code requires financial statements be completed within 150 days of the fiscal year end. While the Academy did file financial statements before the deadline, they were incomplete. The Academy did not prepare a complete set of GAAP basis basic financial statements, Management Discussion and Analysis, and related footnotes until January 18, 2007, more than six months after the year ending June 30, 2006. Furthermore, as a result of applying auditing procedures, the financial statements required 25 audit adjustments to be compliant with GAAP. Additionally, the Management's Discussion and Analysis, financial statements, and the related footnotes contained several errors.

To enhance financial accountability and decision making by the Academy's administration, the Governing Board, and the citizens served by the Academy, we recommend the Academy prepare its GAAP basis basic financial statements in an accurate and timely fashion as required by the Ohio Administrative Code. We also recommend the Academy implement policies and procedures for the completion and review of the financial statements, including Management's Discussion and Analysis and related footnotes, to detect errors and potential modifications that may be necessary before submitting the financial statements.

Officials' Response

We will ensure that the GAAP financials, MD & A, and footnotes are submitted within 150 days of the fiscal year end and work to minimize the number of audit adjustments.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Eligibility—Nutrition Cluster

Finding Number	2006-004
CFDA Title and Number	National School Lunch Program—CFDA #10.555
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition

7 CFR 245.6 provides, in part that to qualify a child for meals/milk served free or at reduced price under the program(s), the child's family must annually submit an application to the School Food Authority, in this case the Academy. The application must be approved and maintained on file. The application must establish that the child's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by the Food and Nutrition Services (FNS) of the U.S. Department of Agriculture (USDA).

7 CFR 245.6a requires that by December 15th of each school year, the Academy must verify the information presented on a sample of the applications that it has approved for free or reduced price meals. The verification sample size is based on the number of approved applications on file as of October 31st. The School Food Authority may select the sample by either (1) random sampling (the lesser of 3,000 approved applications or 3 percent of total approved application on file, all randomly selected), or (2) focused sampling, in which the School Food Authority must verify a sample that is, at a minimum, the sum of:

(1)- The lesser of one percent or 1,000 of the total number of approved applications (both income and categorical) selected from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals; and

(2)- The lesser of .5 percent or 500 of the total number of applications that were approved based on categorical eligibility, selected from applications with a Food Stamp Program or TANF cases number.

The Academy did not maintain the 2005-2006 school year free lunch applications that were completed by parents at the beginning of the 2005-2006 school year. Therefore, we could not determine whether all potential applications were valid and were comprised of eligible participants. Accordingly, a questioned cost is issued in the amount of \$92,174, the amount the Academy received as reimbursement for eligible meals served during fiscal year 2006.

We recommend the Academy implement procedures to ensure all free and reduced lunch applications are accurately completed and submitted annually for each eligibility period. The Academy should retain all applications to provide verification of student eligibility for free and reduced lunches. The Academy should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Eligibility—Nutrition Cluster (Continued)

Finding Number	2006-004
CFDA Title and Number	National School Lunch Program—CFDA #10.555
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition (Continued)

Officials' Response and Corrective Action Plan

Free and reduced lunch application that were not being maintained are now maintained now using a binder system where all applications are in alphabetically order by last name. Verification documentation is also being provided from parents and kept in a binder. This process will verify student's eligibility from the 1st day they enter school.

Anticipated Completion date: March 1, 2007
Responsible Contact Person: Marcia Johnson

Title I- Eligibility

Finding Number	2006-005
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition/Material Weakness

Title I, Section 1115 of the Education and Secondary Education Act, (ESEA), (20 USC 6315), requires that Title I, Part A funds to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging academic achievement standards. In general, eligible children are identified on the basis of multiple, educational-related, objective criteria established by the Local Education Agency and supplemented by the school. Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards are eligible for Title I services because of their status.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Title I- Eligibility (Continued)

Finding Number	2006-005
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition/Material Weakness (Continued)

Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the preceding years; children who received services under the Migrant Education Program under Title I, Part C (or its predecessor authority) at any time in the two preceding years; and, children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services.

The Academy used enrollment in the National School Lunch Program as a basis for determining the Academy's eligibility for Title I services. As discussed in finding 2006-004, the Academy did not maintain the 2005-2006 school year free and reduced lunch applications that were completed by parents at the beginning of the 2005-2006 school year. Accordingly, a questioned cost is issued in the amount of \$158,462, the amount the Academy expended in Title I funding during fiscal year 2006.

We recommend the Academy verify student eligibility in accordance with established requirements and maintain complete and accurate support to demonstrate compliance. The Academy should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

Officials' Response and Corrective Action Plan

Free and reduced lunch application that were not being maintained are now maintained now using a binder system where all applications are in alphabetically order by last name. Verification documentation is also being provided from parents and kept in a binder. This process will verify student's eligibility from the 1st day they enter school.

Anticipated Completion date: March 1, 2007

Responsible Contact Person: Marcia Johnson

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Title I and Public Charter School- Reporting

Finding Number	2006-006
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010 Public Charter School Grant—CFDA #84.282
Federal Award Number / Year	C1S1-2006 CHS1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition

The Ohio Department of Education (ODE) Federal Fiscal Report Procedures #1, and ODE Superintendent Weekly E-mail, dated December 6, 2002 require the following:

Consolidated Application Assurance item 5 provides that the Academy will report to ODE as may be reasonably necessary to enable ODE to perform its duties.

Program funds are reported to the State of Ohio by the following reports:

- Project Cash Requests
- Final Expenditure Report

The final expenditure report is to be submitted for each project immediately after all financial obligations have been liquidated. The report is due no later than 90 days after the end of the project period. Failure to submit the report in a timely manner may result in a temporary suspension of the flow of federal funds for this grant until the project is closed.

Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported (report amount actually expended not encumbered).

The Academy uses an accrual basis accounting system. Rather than performing a calculation to determine actual cash basis expenditures, the Academy estimated cash expenditures for each Project Cash Request submitted for the federal grants awarded by the Ohio Department of Education.

The final expenditure reports for the Title I grant and the Public Charter Schools Grant included \$20,254 and \$15,528 of expenses that had not been liquidated as of the date of the final expenditure reports. Accordingly, a questioned cost is issued in the amount of \$35,782.

The Academy should implement procedures that will identify the actual cash basis expenditures of the program that should be reported on the Project Cash Request forms and the Final Expenditure Report and submitted to the Ohio Department of Education. The Academy should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Title I and Public Charter School- Reporting (Continued)

Finding Number	2006-006
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010 Public Charter School Grant—CFDA #84.282
Federal Award Number / Year	C1S1-2006 CHS1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition (Continued)

Officials' Response and Corrective Action Plan

Anticipated Completion date: immediately
Responsible Contact Person: Michael Troper

We will make a better effort to ensure that our cash requests are more accurate. We did not indicate that we expended any significant amounts beyond the estimated amounts expended.

We did not receive a few items purchased with federal funds until after the deadline to expend these funds. We did not want to pay vendors until the goods were actually received to ensure full delivery of ordered items. In the future, we will not order goods if we believe that they cannot be delivered by the expenditure deadline.

Title I- Activities Allowed and Allowable Costs/Cost Principles

Finding Number	2006-007
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition/Material Weakness

Title I, Section 1115 of the Elementary and Secondary Education Act, (ESEA),(20 USC 6315), requires that in a targeted assistance school, funds available under Part A may be used only for programs that are designed to help participating children meet the State's student academic achievement standards expected of all children.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Title I- Activities Allowed and Allowable Costs/Cost Principles (Continued)

Finding Number	2006-007
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition/Material Weakness (Continued)

Allowable activities in these schools include, but are not limited to instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development.

If health, nutrition, and other social services are not otherwise available from other sources to participating children, Part A funds may be used as a last resort to provide such services. The Academy's plan will provide a description of the general nature of the services to be provided with Part A funds.

2 CFR Part 225 Appendix A Section C, 1, j (formerly known as OMB Circular A-87, Attachment A Section C, 1, j) states that to be allowable under federal awards, costs must be adequately documented.

2 CFR Part 225 Appendix B Section 8 a. (formerly known as OMB Circular A-87, Attachment B Section 8 a.) states in part that the costs of compensation for personnel services are allowable to the extent that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied for both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal Law; and
- (3) Is determined and supported as provided in subsection h.
 - Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
 - Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Title I- Activities Allowed and Allowable Costs (Continued)

Finding Number	2006-007
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition/Material Weakness (Continued)

2 CFR Part 225 Appendix B Section 26 c. (formerly known as OMB Circular A-87, Attachment B Section 26 c.) states that only materials and supplies used for the performance of a Federal award may be charged as direct costs.

During fiscal year 2006, the Academy paid salaries and benefits of \$20,124 to various employees. These employees neither prepared certificates nor personnel activity reports. Because there were no activity reports, it was undeterminable as to the extent these salaries and benefits would be within the scope of the Title I program objectives.

In addition, the Academy made various adjustments throughout the year to account for payroll related expenditures from the Title I program and \$3,454 of these expenditure adjustments were not supported by adequate documentation and were not related to direct costs of the Title I program.

Accordingly, a questioned cost is issued in the amount of \$23,578 of the Academy's \$158,462 expended on the Title I grant program during fiscal year 2006.

The Academy should ensure that documentation supporting direct costs of the Title I Program is maintained to demonstrate expenditures meet the direct costs provisions for expenditures incurred. The Academy should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

Officials' Response and Corrective Action Plan:

Activity reports are now set in place for the 06-07 school year. Starting from September 18, 2006 staff are required to fill out a time sheet every week to verify the days and hours worked serving Title 1 students. Title 1 expenditures are being maintained in a Title 1 binder to demonstrate expenditures and cost that is being used from Title 1 cost.

Anticipated Completion date: September 18, 2006
Responsible Contact Person: Marcia Johnson

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Title I- Student Eligibility

Finding Number	2006-008
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition/Material Weakness

Title I, Section 1115 of ESEA (20 USC 6315) states that Title I, Part A, funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas (see E.2.a and E.2.b below), a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State’s challenging student academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the LEA and supplemented by the school. Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State’s student academic achievement standards and are thus eligible for Part A services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; children who received services under the Migrant Education Program under Title I, Part C at any time in the two preceding years; and children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services.

The Academy did not document in writing what criteria were going to be used to determine the students to be served.

Also, the list of students served by the Academy through the Title I program did not document individual student test scores and teacher recommendations. Therefore, it could not be determined that the students served were the most at risk at failing.

Accordingly, a questioned cost is issued in the amount of \$158,462, the amount the Academy expended in Title I funding during fiscal year 2006.

We recommend that the Academy establish written criteria to be used to by the Title I staff as a basis to prioritize the individual students with the greatest need for Title I services. The Academy should also ensure Title I eligibility determination files clearly document individual student test scores, teacher recommendations, and other information used to determine eligible students. In addition, the Academy should contact the Ohio Department of Education to determine if repayment of these funds is necessary.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Title I- Student Eligibility (Continued)

Finding Number	2006-008
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition/Material Weakness (Continued)

Officials Response and Corrective Action Plan:

Anticipated Completion date: September 18, 2006
Responsible Contact Person: Chasidy Temple

Written criteria to be established from the Title 1 program using ITBS scores are being used for accuracy the kindergarten students the KRA-I test was implemented for incoming students for this purpose. This has now been done on excel spreadsheet to verify testing documentation with children test score.

Title I- Level of Effort- Supplement vs. Supplant

Finding Number	2006-009
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition/Material Weakness

Title I, Part A, Section 1120A(b) of ESEA (20 USC 6321(b)) states that local educational agencies (LEA) may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources.

In the following instances, it is presumed that supplanting has occurred:

- a. The LEA used Federal funds (except Bilingual) to provide services that the LEA was required to make available under other Federal, State or local laws.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Title I- Level of Effort- Supplement vs. Supplant (Continued)

Finding Number	2006-009
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Reportable Condition/Material Weakness (Continued)

- b. The LEA used Federal funds to provide services that the LEA provided with non-Federal funds in the prior year.
- c. The LEA used Title I, Part A or MEP funds to provide services for participating children that the LEA provided with non-Federal funds for nonparticipating children.

These presumptions are rebuttable if the LEA can demonstrate that it would not have provided the services in question with non-Federal funds had the Federal funds not been available.

The following are instances in which the Academy paid employees from non-federal sources at the beginning of the fiscal year before the Academy charged the employees' payroll from Title I funding at a later point during the fiscal year.

- At the end of the fiscal year the Academy adjusted salaries and benefits paid to eight tutors for a portion of hours paid each pay period throughout the year for a total of \$13,975. The Academy does not have documentation to justify that the hours adjusted were spent providing Title I services.
- March of 2006 the Academy started paying four teachers from Title I funds. Total salaries and benefits paid were \$31,463.
- May of 2006 the Academy started paying an additional teacher from Title I funds. Total salaries and benefits paid were \$3,848.

The above stated instances suggest that the Academy used Title I funding to supplant services previously provided through non-federal sources. Accordingly, a questioned cost is issued in the amount of \$49,286 of the \$158,462 of Title I funding expended by the Academy during fiscal year 2006.

When the Academy applies for Title I funding the Academy should plan the Title I services to be provided to supplement the Academy's current educational services and ensure that all employees who are paid from Title I funding are providing those services. The Academy should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

Officials' Response and Corrective Action Plan:

Anticipated Completion date: September, 2006
Responsible Contact Person: Marcia Johnson

All staff are required to submit a federal payroll certification for accuracy and documentation purposes. We provide title 1 tutoring for the students being served. The title 1 services are being used to supplement current services to ensure that all employees are being paid from title 1 are providing student services.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Public Charter School Grant-- Period of Availability

Finding Number	2006-010
CFDA Title and Number	Public Charter School Grant—CFDA #84.282
Federal Award Number / Year	CHS1-2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Question Cost/Reportable Condition/Material Weakness

34 CFR 74.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Secretary. The Ohio Department of Education (ODE) 2006 Community School Competitive Application Consolidated Application for the Public Charter School grant defined the available period as July 1, 2005 to June 30, 2006.

The Academy charged \$33,688 for instructional supplies to the 2006 Public Charter School grant and the expenses were not incurred by the Academy until after June 30, 2006.

Total questioned costs for expenditures that were outside the period of availability are \$33,688 of the Academy's \$233,527 expended on the Public Charter Schools grant program during fiscal year 2006. We recommend the Academy use grant funds only for expenditures obligated during the period of availability. The Academy should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

Officials' Response and Corrective Action Plan:

Many of these items were purchased with a purchase order on or before June 30, 2006. The funds were obligated for these items in the required timeframe. Some of the goods were received after June 30 and the invoices may have been dated after June 30 but we consider these to be FY 2006 obligations because of when the orders were placed.

Auditor of State Conclusion:

There was no audit evidence to indicate purchase orders were utilized by the Academy to obligate items in the required timeframe.



Mary Taylor, CPA
Auditor of State

COLUMBUS HUMANITIES ARTS AND TECHNOLOGY 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
SEPTEMBER 11, 2007**