



**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of the Columbus Preparatory Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Columbus Preparatory Academy, Franklin County, Ohio, as of June 30, 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 (\$1,441,106) and operating loss of (\$957,401) 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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 11, 2007

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

The discussion and analysis of the Columbus Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 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 348 students.

Key highlights for fiscal year 2006 are as follows:

- Net assets decreased \$483,146.
- The Academy had an operating loss of \$957,401 compared to an operating loss of \$1,038,394 in fiscal year 2005.
- Total assets increased \$153,413, or 59.01 percent, due to a \$12,206 increase in cash and cash equivalents and a \$181,908 increase in intergovernmental receivable. The increase was offset by a \$3,319 decrease in prepaid items, \$8,361 decrease in trade-accounts receivable and an decrease of \$29,021 in capital assets.
- Total liabilities increased \$636,559, or 52.26 percent, due to a \$228,170 increase in accounts payable-trade, \$67,564 increase in accrued wages/benefits payable, \$39,212 increase in accrued interest payable and \$696,506 increase in long term debt. The increase was offset by a \$394,893 decrease in accounts payable-related party.

Overview of the Financial Statements

The financial report consists of two parts the 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 PREPARATORY ACADEMY
FRANKLIN COUNTY**

*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	2005	Change
<u>Assets:</u>			
Current Assets	\$274,309	\$91,875	\$182,434
Capital Assets	139,090	168,111	(29,021)
Total Assets	<u>413,399</u>	<u>259,986</u>	<u>153,413</u>
<u>Liabilities:</u>			
Current Liabilities	1,219,294	1,142,946	76,348
Long-Term Liabilities	635,211	75,000	560,211
	<u>1,854,505</u>	<u>1,217,946</u>	<u>636,559</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	52,484	14,381	38,103
Restricted for Other Purposes	86,573	0	86,573
Unrestricted	(1,580,163)	(972,341)	(607,822)
Total Net Assets	<u>(\$1,441,106)</u>	<u>(\$957,960)</u>	<u>(\$483,146)</u>

Total net assets decreased \$483,146. 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 PREPARATORY ACADEMY
FRANKLIN COUNTY**

*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 compared to 2005.

Table 2
Change in Net Assets

	2006	2005	Change
<u>Operating Revenues:</u>			
Foundation	\$2,200,071	\$928,114	\$1,271,957
Charges for Services	118,609	27,027	91,582
Other Operating Receipts	15,442	20,663	(5,221)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	554,971	80,434	474,537
 Total Revenues	 <u>\$2,889,093</u>	 <u>\$1,056,238</u>	 <u>\$1,832,855</u>
<u>Operating Expenses:</u>			
Salaries	\$994,539	\$584,694	\$409,845
Fringe Benefits	285,983	148,742	137,241
Building	722,652	513,002	209,650
Purchased Services	924,655	385,461	539,194
Depreciation	29,021	24,239	4,782
General Supplies	95,684	216,236	(120,552)
Other Operating Expense	238,989	141,824	97,165
<u>Non-Operating Expenses:</u>			
Interest	80,716	0	80,716
Total Expenses	<u>\$3,372,239</u>	<u>\$2,014,198</u>	<u>\$1,358,041</u>
 Total Increase (Decrease) in Net Assets	 <u><u>(\$483,146)</u></u>	 <u><u>(\$957,960)</u></u>	 <u><u>\$474,814</u></u>

Fiscal year 2006 showed a increase in revenues and expenses is primarily due to an increase in the number of students from 146 in fiscal year 2005 to 348 in fiscal year 2006 served by the Academy.

Budgeting

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the Academy had \$139,090 invested in capital assets (net of accumulated depreciation) for computer and other equipment, a decrease of \$29,021 or 17.26 percent. The following table shows fiscal 2006 compared to 2005:

Capital Assets at June 30 (Net of Depreciation)

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Furniture & Equipment	\$139,090	\$168,111	(\$29,021)

The decrease represents the depreciation expense for the year on the computer equipment. The Academy added no assets in fiscal year 2006. 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 \$850,238 in notes and capital leases outstanding, \$215,025 due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2006.

Outstanding Debt, at Year End

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Capital Leases Payable	\$86,605	\$153,730	(\$67,125)
Promissory Note Payable	763,631	0	763,631
Total	<u>\$850,236</u>	<u>\$153,730</u>	<u>\$696,506</u>

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

Economic Factors

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Operations

Columbus Preparatory 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 Preparatory Academy, 3330 Chippewa Street, Columbus, Ohio, 43204.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Assets:

Current assets:

Cash and Cash Equivalents	\$79,780
Intergovernmental Receivable	183,046
Prepaid Expense	11,483
Total current assets	<u>274,309</u>

Noncurrent assets:

Capital assets, Net of Accumulated Depreciation	<u>139,090</u>
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Total Assets: 413,399

Liabilities:

Current liabilities:

Accounts Payable, Trade	319,436
Accounts Payable, Related Party	545,685
Accrued Wages	64,617
Benefits Payable	35,319
Accrued Interest Payable	39,212
Current Portion of Long-Term Debt	215,025
Total current liabilities	<u>1,219,294</u>

Noncurrent liabilities:

Noncurrent Portion of Long-Term Debt	635,211
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Total Liabilities: 1,854,505

Net Assets:

Invested in Capital Assets, Net of Related Debt	52,484
Restricted for Other Purposes	86,573
Unrestricted	(1,580,163)
	<u><u>(\$1,441,106)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Operating Revenues:

Foundation Receipts	\$2,200,071
Charges for Services	118,609
Other Operating Receipts	15,442
Total Operating Revenues	<u>2,334,122</u>

Operating Expenses:

Salaries	994,539
Fringe Benefits	285,983
Building	722,652
Purchased Services	924,655
Depreciation	29,021
General Supplies	95,684
Other Operating Expenses	238,989
Total Operating Expenses	<u>3,291,523</u>

Operating Loss (957,401)

Nonoperating Revenues and Expenses:

Federal/State Restricted Grants	554,971
Interest	(80,716)
Total Nonoperating Revenues and Expenses	<u>474,255</u>

Change in Net Assets	(483,146)
Net Assets Beginning of Year	(957,960)
Net Assets End of Year	<u>(\$1,441,106)</u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Cash flows from operating activities

Foundation Receipts	\$2,200,071
Charges for Services	118,609
Other Operating Receipts	15,442
Cash Payments to Suppliers for Goods and Services	(2,139,402)
Cash Payments to Employees for Service and Benefits	(1,212,961)
Net Cash Used for Operating Activities	<u>(\$1,018,241)</u>

Cash flow from noncapital financing activities

Federal and State Grants	<u>373,064</u>
Net Cash Provided by Noncapital Financing Activities	<u>373,064</u>

Cash flow from capital and related financing activities

Cash Received from Note Proceeds	763,631
Cash Payments for Interest on Note	(28,636)
Cash Payments for Capital Lease Debt	(65,525)
Cash Payments for Capital Lease Interest	(12,088)
Net Cash Provided by Capital and Related Financing Activities	<u>657,382</u>

Net Increase in Cash and Cash Equivalents	12,205
Cash and Cash Equivalents-Beginning of the Year	<u>67,574</u>
Cash and Cash Equivalents-Ending of the Year	<u><u>\$79,779</u></u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	(\$957,401)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	29,021
Change in assets and liabilities:	
Decrease in Accounts Receivable, Trade	8,361
Decrease in Prepaid Expense	3,319
Increase in Accounts Payable-Trade	225,788
Decrease in Accounts Payable-Related Party	(394,893)
Increase in Accrued Wages and Benefits Payable	67,564

Net Cash Used for Operating Activities	<u><u>(\$1,018,241)</u></u>
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See Accompanying Notes to the Basic Financial Statements

Noncash operating activities

The Academy's management company paid \$560,685 for operating expenses on behalf of the Academy.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 1 - Description of the School

The Columbus Preparatory 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 the Ohio Council of Community Schools (the Sponsor) for a period of four academic years commencing after July 1, 2004 and ending June 30, 2008. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

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

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 PREPARATORY 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 incurred.

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 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 computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

**COLUMBUS PREPARATORY 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)

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 \$86,573 in restricted net assets related to food service, OASIS, EMIS Grant, and the Public School Grant and \$52,484 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 95% 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 – 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."

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.

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 \$112,789. Of the bank balance, \$100,000 was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$12,789 was uninsured and uncollateralized. .

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 5 – Receivables

At June 30, 2006, the Academy had intergovernmental receivables, in the amount of \$183,046. The receivables are expected to be collected within one year.

Grant	Amount
Federal School Breakfast	\$5,930
Federal School Lunch-Public	23,105
OASIS	728
Title I	70,997
Title IV	1,391
Title 2A	1,582
Title 2D	456
Federal School Public Grant	78,857
Total Intergovernmental Receivables	\$183,046

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
Furniture & Equipment	\$192,350	0	0	\$192,350
Less Accumulated Depreciation	(24,239)	(29,021)	0	(53,260)
Capital Assets, Net	\$168,111	(\$29,021)	\$0	\$139,090

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:

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 7 - Risk Management (Continued)

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	8,000,000
Aggregate Limit	8,000,000
Excess/Umbrella Liability:	
Bldg&BPP	6,836,000

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

Note 8 – Purchased Services

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

Service	Amount
Building/Custodial	\$176,859
Auditing Fees	6,578
Food Service	135,183
Legal Fees	2,957
Management Fee	344,381
Special Education/Nursing	138,311
Sponsor Fee	65,816
Temporary Services	34,510
Training	11,568
Pupil Transportation	8,492
Total	<u><u>\$924,655</u></u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

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 \$27,050 and \$12,453 respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005.

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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 9 – Defined Benefit Pension Plans (Continued)

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 \$112,186 and \$60,695, respectively; 84 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.

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 \$8,013 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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 10 – Postemployment Benefits (Continued)

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 \$10,554.

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.

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 school are 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 owed the Ohio Department of Education \$6,570.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 12 – Building Leases

The Academy has entered into a lease for the period from July 1, 2004 through June 30, 2019 with EFA Company, LLC a wholly owned subsidiary of Mosacia Education, Inc for the use of the main building and grounds as a school facility. Mosacia Education, Inc. is a related party, as disclosed in Note 17. Payments made totaled \$600,000 for the fiscal year. Under the lease agreement, the Academy is responsible for paying all utilities, maintenance and repairs, and applicable property taxes.

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

Fiscal Year Ending June 30	Amount
2007	\$615,000
2008	630,000
2009	645,750
2010	661,500
2011	678,036
2012	694,572
2013	711,936
2014	729,301
2015	747,533
2016	765,766
2017	784,910
2018	804,054
2019	402,027
Total minimum lease payments	\$8,870,385

Note 13 – Long-Term Obligations

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

	Balance 6/30/2005	Additions	Reductions	Balance 6/30/2006	Amount Due Within One Year
Mosaica Educaiton, Inc. Promissory Note	\$0	\$763,631	\$0	\$763,631	\$143,631
Capital Leases Payable	153,730	0	(67,125)	86,605	71,394
Long-Term Obligations	\$153,730	\$763,631	(\$67,125)	\$850,236	\$215,025

Mosaica Education, Inc. Promissory Note- On December 7, 2005, the Academy entered into a promissory note with Mosaica Education, Inc for the bills paid by Mosaica Education Inc. on behalf of the Academy. The promissory note has an interest rate of 9.0 percent and will mature in fiscal year 2010.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 13 – Long-Term Obligations (Continued)

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

Promissory Note		
Fiscal Year Ending June 30	Principal	Interest
2007	\$143,631	\$14,004
2008	155,000	29,063
2009	155,000	43,012
2010	155,000	56,963
2011	155,000	70,912
Total	<u>\$763,631</u>	<u>\$213,954</u>

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into capitalized leases for the use of computer equipment and for the use of telephone and surveillance equipment. Each lease meets the criteria of capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfer benefits and risk of ownership to the lessee. Principal payments in 2006 were \$67,125

	<u>Amount</u>
Property under Capital Lease	\$192,350
Less Accumulated Depreciation	<u>(53,260)</u>
Total June 30, 2006	<u>\$139,090</u>

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	\$71,394	\$6,078
2008	15,211	455
Total	<u>\$86,605</u>	<u>\$6,533</u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 15 – Operating Leases

In August of 2004, the Academy entered into an operating lease for three years with American Industrial Leasing, Inc, for the use of classroom furnishings. Total lease payments during fiscal year 2006 for this lease were \$22,181. Estimated minimum lease payments still owed on the operating lease is \$34,459.

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 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 is entitled to a management fee that is equivalent to 12.5% of Academy revenue. Mosaica Education is entitled to 12.5% of revenues as a management fee. The management fee for fiscal year 2006 was \$344,381

At June 30, 2006, the Academy had payables to Mosaica Education in the amount of \$545,685. The following is a schedule of payables to Mosaica Education.

	<u>Amount</u>
Payroll	\$307,206
Management Fee	78,414
Building Rent	139,500
Miscellaneous	<u>20,565</u>
Total June 30, 2006	<u><u>\$545,685</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 entitle to a maximum of 3% of all revenues. Total amount due and paid for fiscal year 2006 was \$65,816.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 19 – Management’s Plan

For fiscal year 2006, the Academy had an operating loss of (\$957,401), change in net assets of (\$483,146), and net asset deficit of (\$1,441,106). 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 FY 2006 of \$483,146 was less than the net loss in fiscal year 2005 of \$957,960 for the Academy due to a significant increase in enrollment. Final FY 2005 full-time equivalent student enrollment was 162 students and Final FY 2006 full-time equivalent student enrollment was 357 students. Current full-time equivalent student enrollment as of February 2007 is 487 students.

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.



Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

We have audited the basic financial statements of the Columbus Preparatory Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 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. Reportable conditions are described in the accompany schedule of findings as items 2006-001, 2006-002, 2006-004, and 2006-005.

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 items 2006-001, 2006-002 and 2006-004 to be material weaknesses. 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 reasonable assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-002, 2006-003, 2006-005 and 2006-006. In a separate letter to the Academy's management dated July 11, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intended this report solely for the information and use of management and the Governing Board. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 11, 2007

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2006-001

Payment of Taxes—Reportable Condition/Material Weakness

Ohio Revised Code § 3314.082 states, in pertinent part, that it is the intent of the general assembly that no state monies paid to a community school under **Section 3314.08 of the Ohio Revised Code** be used by the school to pay any taxes the school might owe on its own behalf, including, but not limited to, local, state, and federal income taxes, sales taxes, and personal and real property taxes.

The Sublease Agreement entered into between the Academy and the EFA Company, LLC states that the Academy is responsible for rent and other obligations as stated in the Master Lease Agreement between the EFA Company, LLC and Spirit Finance Acquisitions.

Section 8 of the Master Lease Agreement states that the EFA Company, LLC is responsible for all taxes and assessments of every type or nature assessed against or imposed on the property.

A liability of \$122,652 has been recorded on the financial statements related to un-paid real estate taxes that are the responsibility of the Academy per the Sublease agreement between the Academy and the EFA Company, LLC. No property taxes were paid by the Academy during 2006.

The payment of taxes results in the reduction of funds available for expenditures that could be used in a more prudent manner.

Officials' Response:

The Academy has filed an application for exemption of real estate taxes with the Franklin County Auditor. It is anticipated that the Academy will be granted the exemption at which point we will remove the liability. It is important to note that no real estate taxes have been paid to date which keeps the Academy in compliance with ORC Section 3314.082.

FINDING NUMBER 2006-002

Tax Exempt Status—Noncompliance/Reportable Condition/Material Weakness

The Academy's sponsorship agreement with the Board of Trustees of the Ohio Council of Community Schools states the Academy is required to apply and qualify as a tax-exempt organization under section 501(C)(3) of the Internal Revenue Code.

The Academy did not present documentation that it has applied to the Internal Revenue Service to obtain tax exempt status pursuant to Section 26 USC 501(C)(3). The Academy has made no provision for potential current or future tax liability which could result from not obtaining the Section 501(C)(3) tax exempt status.

We recommend the Academy consult with qualified tax counsel to determine necessary tax filing with Internal Revenue Service, pay any outstanding taxes due, and negotiate a settlement concerning any fees and/or penalties which may be assessed.

Officials' Response

The Academy is in the process of filing for tax exempt status pursuant to Section 26 USC 501 (C)(3).

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006
(Continued)**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-003

Debt Payments In Accordance with Promissory Note Agreement—Noncompliance

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

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

On November 1, 2005 Mosaica Education, Inc billed the Academy \$28,636.20 for five months interest on the outstanding balance of the promissory note. The invoice stated that the amount was due upon receipt. On February 6, 2006, the Academy paid Mosaica \$28,636.20 for the interest billed prior to the scheduled payment 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 \$28,636.90 represented accrued interest through November 1st and was an actual liability to the Academy. When interest through 7/31/06, the initial payment due date, was billed the \$28,636.90 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 2006-004

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 elected 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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006
(Continued)**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-004 (Continued)

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

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 interests 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 February 20, 2007, more than seven months after the year ending June 30, 2006. Furthermore, as a result of applying auditing procedures, the financial statements required 28 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 Board of Directors, 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, M D & A, and footnotes are submitted within 150 days of the fiscal year end and work to minimize the number of audit adjustments.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006
(Continued)**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Title I and Public Charter School- Reporting

Finding Number	2006-005
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/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 all 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 \$14,340 and \$11,225 of expenses that had not been liquidated as of the date of the final expenditure reports. Accordingly, if this audit had been subject to Federal Circular A-133, a questioned cost would have been issued.

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 PREPARATORY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006
(Continued)**

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

Title I and Public Charter School- Reporting (Continued)

Officials' Response:

The Academy 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 and did not expend more than the budgeted amount.

The Academy did not receive a few items purchased with federal funds until after the deadline to expend these funds. The Academy did not want to expend federal funds until the goods were actually received. In the future, the Academy will not order goods if we believe that they cannot be delivered by the expenditure deadline.

Title I- Period of Availability

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

Noncompliance

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 Title I Program grant defined the available period as July 1, 2005 to June 30, 2006.

The Academy charged \$14,340 in computer equipment to the 2006 Title I grant and the computer equipment had not been received until 2007. There is no documentation to support that the computer equipment was ordered before June 30, 2006.

Total expenditures that were outside the period of availability are \$14,340 of the Academy's \$115,159 expended on the Title I grant program during fiscal year 2006. Accordingly, if this audit had been subject to Federal Circular A-133, a questioned cost would have been issued.

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.

COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2006
(Continued)

<p>FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

Title I- Period of Availability (Continued)

Officials' Response:

We issued a purchase order for \$14,340 on June 30, 2006, to order the equipment. The equipment has been received by the Academy. We will make a better effort to ensure that all Title 1 funds are spent within the appropriate guidelines in the future.

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 PREPARATORY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 11, 2007**