CAPITOL CITY ACADEMY
FRANKIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

CAPITOL CITY ACADEMY
FRANKLIN COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Capitol City Academy
Franklin County
35 Midland Avenue
Columbus, Ohio 43223

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Capitol City Academy, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the School'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 Capitol City Academy, Franklin County, Ohio, as of June 30, 2008, and the changes in its financial position and its cash flows the year then ended in conformity with accounting principles generally accepted in the United States of America.

The School is experiencing certain financial difficulties. Those difficulties and Management's Plan are discussed in Note 15.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2009, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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www.auditor.state.oh.us

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 2, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The discussion and analysis of Capitol City Academy's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for the Capitol City School during fiscal year 2008 are as follows:

- Total net assets of the School decreased $119,593 in fiscal year 2008. Ending net assets of the School were $5,490 compared with $125,083 at June 30, 2007.

- Total assets decreased $138,576 from the prior year and total liabilities decreased by $18,983 during this same 12 month period.

- The School's operating loss for fiscal year 2008 was $217,093 compared with an operating loss of $323,856 reported for the prior year. Foundation revenues decreased by $238,341 in fiscal year 2008 compared to fiscal year 2007. Total revenues decreased by $568,714 while total expenses decreased by $351,509 compared to total revenues and expenses reported for the prior year.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2008 compared to those reported for fiscal years 2007 and 2006.

Table 1
Net Assets

	2008	2007	2006
Assets:			
Current assets	$ 17,426	$ 151,052	$ 82,956
Noncurrent assets	177,807	182,757	147,438
Total Assets	195,233	333,809	230,394
Liabilities			
Current liabilities	189,743	208,726	202,923
Total Liabilities	189,743	208,726	202,923
Net Assets:			
Invested in capital assets	177,807	182,757	147,438
Restricted	9,863	-	62,545
Unrestricted	(182,180)	(57,674)	(182,512)
Total Net Assets	$ 5,490	$ 125,083	$ 27,471

Current assets of the School decreased by $133,626, from $151,052 reported for fiscal year 2007 to $17,426 reported for fiscal year 2008. Noncurrent assets declined by $4,950 (2.7%) to $177,807 during the 2008 fiscal year. Noncurrent financial assets for the School are comprised of capital assets, net of accumulated depreciation. The total assets at the end of fiscal year 2008 were $138,576 lower than the total assets reported at the end of fiscal year 2007.

Total liabilities of the School decreased $18,983 over those reported one year ago. The 9.1 percent decrease was primarily due to reductions in the outstanding line of credit.

The total net assets reported for fiscal year 2008 decreased by $119,593, from $125,083 reported for fiscal year 2007 to $5,490 reported for fiscal year 2008. Unrestricted net assets decreased by $124,506 to ($182,180) while restricted net assets increased by $9,863. Net assets invested in capital assets, decreased by $4,950.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008 as compared to changes reported for fiscal years 2007 and 2006.

Table 2
Change in Net Assets

	2008	2007	2006
Operating Revenues:			
Foundation payments	$ 636,018	$ 874,359	$ 959,687
Charges for services	-	-	190,976
Food service revenues	-	1,505	-
Other operating revenues	-	113	4,302
Non Operating Revenues:			
State and Federal grants	85,756	351,448	498,952
Interest and fiscal charges	(5,660)	-	-
Interest earnings	-	12,625	-
Gain (Loss) on Sale of Assets	(19,559)	-	-
Other non-operating revenues	36,963	62,182	-
Total Revenues	733,518	1,302,232	1,653,917
Operating Expenses:			
Salaries & Wages	354,302	547,022	700,680
Fringe benefits	93,986	69,705	132,711
Building rental	65,592	194,391	181,286
Other purchased services	224,810	219,327	307,452
Materials and supplies	20,727	60,421	236,184
Other expenses	46,988	35,812	13,316
Depreciation	46,706	73,155	58,967
Non Operating Expenses:			
Interest and fiscal charges	-	4,787	3,346
Total Expenses	853,111	1,204,620	1,633,942
Change in Net Assets	(119,593)	97,612	19,975
Net Assets, beginning of year	125,083	27,471	7,496
Net Assets, end of year	$ 5,490	$ 125,083	$ 27,471

Total revenue decreased $568,714 for fiscal year 2008 compared with the prior fiscal year primarily due to the decreased revenue from lower foundation payments from the Ohio Department of Education directly related to lower student enrollment from the previous fiscal year.

Expenses reported for fiscal year 2008 were $351,509 lower than expenses reported for fiscal year 2007 due to significant reductions in staff, building rent and related expenses.

Capital Assets

At the end of fiscal year 2008, the School had $177,807 invested in buildings, leasehold improvements, and furniture, fixtures and equipment. There was a total of $3,315 in purchases which met the School's capitalization threshold of $100 during the year. See Note 5 of the basic financial statements for additional details.

Debt

During the previous fiscal year, the School entered into a short-term debt agreement with Fifth Third Bank for a line of credit. At June 30, 2007 the School owed $75,000 on this line of credit. During Fiscal Year 2008, the School repaid $38,203 on this line of credit, as well as paying $5,660 in interest payments during the year. The remaining $36,797 in principal on the line of credit, plus interest, is anticipated to be repaid by the School in fiscal year 2009 and fiscal year 2010. During fiscal year 2008, the School also secured a no-interest loan from Mangen & Associates to meet short-term cash requirements. At June 30, 2008 the School owed $23,706 in principal on this short-term loan. (Note: The School subsequently paid off this loan during the first half of the 2009 fiscal year.)

Budgetary

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated annually

Current Financial Issues

The future financial stability of the School is not without challenges.

The first challenge is the state economy. The School does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the School.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Capitol City Academy and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Capitol City Academy, 35 Midland Avenue, Columbus, Ohio 43223. Phone: 614-324-1492.

CAPITOL CITY ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	313
Receivable – Intergovernmental		17,113
Total current assets		17,426
NON-CURRENT ASSETS		
Capital Assets (Net of Accumulated Depreciation)		177,807
TOTAL ASSETS		195,233
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable		84,978
Accrued Wages Payable		27,734
Intergovernmental Payable		16,528
Line of Credit Payable		36,797
Loans Payable, Related party		23,706
Total Current Liabilities		189,743
TOTAL LIABILITIES		189,743
NET ASSETS		
Invested in Capital Assets		177,807
Restricted		9,863
Unrestricted		(182,180)
TOTAL NET ASSETS	$	5,490

See the Accompanying Notes to the Basic Financial Statements

CAPITOL CITY ACADEMY

FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

OPERATING REVENUES		
Foundation Payments	$	636,018
Total Operating Revenues		636,018
OPERATING EXPENSES		
Salaries		354,302
Fringe Benefits		93,986
Building Rental		65,592
Contracted Fiscal Services		70,077
Purchased Services		154,733
Materials & Supplies		20,727
Depreciation		46,706
Miscellaneous		46,988
Total Operating Expenses		853,111
Operating Loss		(217,093)
NON-OPERATING REVENUES AND (EXPENSES)		
State and Federal Grant Revenue		85,756
Interest and Fiscal Charges		(5,660)
Gain (loss) on Sale of Assets		(19,559)
Other Non-operating Revenue		36,963
Total Non-Operating Revenues and (Expenses)		97,500
CHANGE IN NET ASSETS		(119,593)
Net Assets Beginning of Year		125,083
Net Assets End of Year	$	5,490

See the Accompanying Notes to the Financial Statements

CAPITOL CITY ACADEMY

FRANKLIN COUNTY

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Cash Flows from Operating Activities:		
Cash Received from State of Ohio	$	613,855
Cash Payments to Suppliers for Goods and Services		(282,253)
Cash Payments to Employees for Services and Benefits		(469,359)
Other Operating Expenses		(42,777)
Net Cash Used for Operating Activities		(180,534)
Cash Flows from Noncapital Financing Activities:		
Cash from Federal & State Subsidies		120,906
Line of Credit Principal Repaid		(38,203)
Loan Proceeds		23,706
Other Non-operating Income		36,963
Interest and Fiscal Charges		(5,660)
Net Cash Provided By Noncapital Financing Activities		137,712
Cash Flows from Capital and Related Financing Activities:		
Payments for Capital Acquisitions		(3,315)
Cash Received from Capital Assets Sale		2,000
Net Cash Used for Capital and Related Financing Activities		(1,315)
Net decrease in cash and cash equivalents		(44,137)
Cash and cash equivalents at beginning of year		44,450
Cash and cash equivalents at end of year	$	313

(Continued)

CAPITOL CITY ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)

<u>Reconciliation of Operating Loss to Net Cash</u>		
<u>Used for Operating Activities</u>		
Operating Loss	$	(217,093)
Adjustments to Reconcile Operating Loss to Net		
Cash Used for Operating Activities:		
Depreciation		46,706
Changes in Assets and Liabilities:		
Increase in Intergovernmental Receivable		(5,661)
Increase in Accounts Payable		32,979
decrease in Accrued Wages		(19,224)
decrease in Intergovernmental Payable		(18,241)
Total adjustments		36,559
Net cash used for operating activities	$	(180,534)

See the Accompanying Notes to the Financial Statements

<u>Non-Cash Capital and Related Financing Item:</u>

During fiscal year 2007, the School sold capital assets with a historical cost of $65,295 and accumulated depreciation of $30,887. In exchange the School was to receive $60,000 which had been recorded as an accounts receivable at June 30, 2007. The difference between the amount to be received and the book value of the assets sold, $25,592, was recorded as a gain on the sale of assets.

During fiscal year 2008, $2,000 of the $60,000 was received. However, upon further review of the verbal sales agreement by management, collection on the remaining accounts receivable was determined highly in doubt. As a result, assets valued at $38,441, previously reported as account receivable in 2007, were reported in capital assets, with associated asset deprecation also recorded. The remaining $19,559 of the account receivable was deemed uncollectible and written off as a loss on the sale of assets.

1. Description of the School and Reporting Entity:

Capitol City Academy (the School), is a state nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Educational Resource Consultants of Ohio (the Sponsor) for a period of five years commencing July 1, 2007 through June 30, 2011. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member Board of Trustees (the Board). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's instructional/support facility staffed by 2 non-certified and 9 certificated full time teaching personnel who provide services to 89 students.

The School has entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School (Note 11).

2. Summary of Significant Accounting Policies:

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School 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 School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

2. Summary of Significant Accounting Policies: (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. The School had no investments during fiscal year 2008.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical 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 School does not possess any infrastructure. The School maintains a capitalization threshold of $100. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Estimate Life
Furniture, Fixtures, and Equipment	5 years
Leasehold Improvements	15 years

2. Summary of Significant Accounting Policies: (Continued)

F. 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 these estimates.

G. Intergovernmental Revenues

The School is a participant in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation Program totaled $636,018 and revenues associated with specific education grants from the state and federal governments totaled $85,756 during fiscal year 2008.

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include revenues paid through the State Foundation Program. Operating expenses are necessary costs incurred to support the School's primary mission, including salaries, benefits, purchased services, materials and supplies and depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal and state grants, interest earnings, if any, and payments made to the School by other instructional entities for use of the School's instructional staff comprise the non-operating revenues of the School. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any, comprise the non-operating expenses.

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2008, including:

Wages payable – salary payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2008 contract.

Intergovernmental payable – payment for the employer's share of the retirement contribution, Medicare and Workers' Compensation associated with services rendered during fiscal year 2008 that were paid in the subsequent fiscal year.

2. Summary of Significant Accounting Policies: (Continued)

J. Federal Tax Exemption Status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted net assets of the School at year-end represent unspent federal and state grant resources for specific instructional program. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Economic Dependency

The School receives nearly 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the State of Ohio Department of Education.

3. Deposits:

At June 30, 2008, the carrying amount of the School's deposits was $313. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, $13,571 of the School's bank balance was covered by the Federal Deposit Insurance Corporation.

4. Intergovernmental Receivables:

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs. A summary of the principal items of receivables at June 30, 2008 is as follows:

Grants Receivables	Amount
Federal Grants	
Title IV A – Drug Free	$ 6
Title Funds –IDEA 6B	11,446
State Foundation Adjustment	4,939
SERS Overpayment	722
Total	$17,113

5. Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

Capital Assets:	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Furniture and Equipment	$ 315,347	$ 41,756	$ -	$357,103
Accumulated Depreciation:				
Furniture and Equipment	(132,590)	(46,706)	-	(179,296)
Net Capital Assets	$ 182,757	$ (4,950)	$ -	$177,807

Current year additions of $3,315 are increased by $38,441 in assets previously recorded as accounts receivable in 2007, but determined as not collectable in the current year.

6. Risk Management:

A. Property and Liability

The School 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. For the year ended June 30, 2008, the School contracted with Acordia of Columbus for its insurance coverage as follows:

General Liability aggregate	$2,000,000

There was no significant reduction in coverage from the prior-year. Settlement amounts have not exceeded coverage amounts in each of the past three years.

B. Workers' Compensation

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

C. Employee Insurance Benefits

The School utilizes Anthem Blue Cross/Blue Shield and VSP to provide dental, life, accidental death and dismemberment insurance benefits to School employees.

7. Defined Benefit Pension Plans:

A. School Employees Retirement System

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

7. Defined Benefit Pension Plans: (Continued)

A. School Employees Retirement System (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2008, 2007 and 2006 were $9,450, $9,644 and $19,621 respectively; 100 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

7. Defined Benefit Pension Plans: (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2008, 2007 and 2006 were $38,379, $48,182 and $143,889, respectively; 100 percent has been contributed for fiscal year 2008. Contributions to the DC and Combined Plans for fiscal year 2008 were $36,456 made by the School and $31,011 made by the plan members.

8. Post-employment Benefits

A. School Employees Retirement System

Plan Description – The School participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal year ended June 30, 2008, 2007 and 2006 were $3,137, $9,072 and $4,431 respectively; 100 percent has been contributed for fiscal year 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal year ended June 30, 2008 were $643; 100 percent has been contributed for fiscal year 2008.

8. Post-employment Benefits (Continued)

B. State Teachers Retirement

Plan Description – The School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal year ended June 30, 2008, 2007 and 2006 were $2,952, $3,706 and $8,394 respectively; 84 percent has been contributed for fiscal year 2008.

9. Restricted Net Assets:

At June 30, 2008 the School reported restricted net assets totaling $9,863. The nature of the net asset restrictions are as follows:

State specific educational program grants	$8,895
Federal specific educational program grants	968
Total	$9,863

10. Contingencies:

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at June 30, 2008.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2008 as a result of such review.

11. Contracted Fiscal Services:

The School is a party to a fiscal services agreement with Mangen & Associates (M&A) School Resource Center, which is an education finance consulting company. The Agreement's term is for a twelve month period beginning July 1st and may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M&A School Resource Center will perform the following functions for the School:

1. Standard Treasurer Services, including general ledger entries, basic record keeping required documents for state and federal governments, and basic accounting reports to Director and Board.

2. Basic Financial Management Services, including all of the functions in Standard Treasurer Services Package plus Financial Management Support Services, ongoing budgeting, accounting, purchasing, financial reporting, cash flow analysis, and resource call support.

3. Basic SIS/DASL/CSADM/EMIS Services, including setup, maintenance, and input of Student and Staff data directly into the EMIS subsystem. In addition, M&A will input all school provided attendance, classroom, test scores and all other required student information into the SIS/DASL system.

The total fee paid for these services during fiscal year 2008 was $70,077.

12. Other Purchased Services:

During the fiscal year ended June 30, 2008, other purchased service expenses for services rendered by various vendors were as follows:

Professional and Technical Services	$ 60,066
Property Services	29,624
Communications	10,613
Utilities	36,698
Contract Craft or Trade Services	65
Pupil Transportation	1,700
Other	15,967
Total Purchased Services	$154,733

13. Short-Term Debt:

During the previous fiscal year, the School entered into a short-term debt agreement with Fifth Third Bank for a line of credit. At June 30, 2007 the School owed $75,000 on this line of credit. During Fiscal Year 2008, the School repaid $38,203 on this line of credit, as well as paying $5,660 in interest payments during the year. The remaining $36,797 in principal on the line of credit, plus interest, is anticipated to be repaid by the School in fiscal year 2009 and fiscal year 2010. In addition, the School entered into a short-term loan agreement in May 2008 with Mangen & Associates for $23,706. The M&A loan was a no-interest loan with no minimum payment requirements. (Note: The School repaid the M&A loan in the first half of fiscal year 2009.)

14. Operating Leases:

The School entered into a new lease agreement for a building August 7, 2007 with Catholic Diocese of Columbus. The lease is scheduled to expire July 31, 2008 and has the option to extend for 1 year. Monthly rent is $2,083. Lease payments made to the Catholic Diocese of Columbus totaled $27,211 for the fiscal year ending June 30, 2008.

Previously, the School was under a lease agreement with Down Town Tiano II, Ltd. which was scheduled to expire September 30, 2009. Payment made to payoff the terminating lease agreement early was $38,381 during fiscal year ending June 30, 2008.

15. Management Plan:

At June 30, 2008, The School had an unrestricted net asset deficit of ($182,180), which is a net change of $124,506 from the previous year. The School has a $75,000 line of credit from Fifth Third Bank to maintain the cash flow necessary during times of fluctuating receipts from state and federal sources. The School paid off a total of $38,203 toward the $75,000 line of credit during fiscal year 2008, leaving a balance of $36,797. The current plan is to sustain this line of credit level for FY09. In addition, the School entered into a short-term loan agreement in May 2008 with Mangen & Associates for $23,706 to support fluctuating cash flow requirements. The School plans to pay off all short-term debt by the end of fiscal year 2010 based on anticipated growth in student enrollment revenues and spending restrictions related to ongoing business operations. The School's Board of Trustees has adopted a balanced budget for the fiscal year ending June 30, 2009 which includes (already secured) contributions of $100,000 from philanthropic organizations to fund academic program enhancements during the 2009 fiscal year. The School's future financial objectives include building an unencumbered cash reserve equal to three months of average operating expenses during the 2010 and 2011 fiscal years to meet ongoing cash flow requirements without the need for an outside line of credit or any additional philanthropic contributions.

16. Subsequent Events:

Subsequent to the 2008 fiscal year end, the School paid off the no-interest loans (total of $23,706) provided by Mangen and Associates in May and June 2008.

As a result of continued student enrollment declines during the 2008 fiscal year, the School's Board approved a revision in curricular focus for the 2008-2009 school year to a bilingual design for students in grades 4 to 7. The name of Capitol City Academy was changed at the beginning of fiscal year 2009 to Columbus Bilingual Academy. In addition, the School's Board secured the services of Mangen & Associates to continue the provision of operations management services for the 2008-2009 school year; including education program management, school operations management and standard treasurer, financial management, EMIS/CSADM and CCIP administration.

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

Capitol City Academy
Franklin County
35 Midland Avenue
Columbus, Ohio 43223

To the Board of Trustees:

We have audited the financial statements of the Capitol City Academy, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated March 2, 2009, wherein we noted the School experienced certain financial difficulties. 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 School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2008-002 and 2008-003 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings number 2008-002 and 2008-003 are also material weaknesses.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated March 2, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, and the Community School's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 2, 2009

CAPITOL CITY ACADEMY
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

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

FINDING NUMBER 2008-001

Noncompliance Citation

Approval of Purchases

On December 13, 2004 the Board of Trustees approved the implementation of a purchase order process. Also on March 7, 2005 the Board of Trustees formally accepted written policies as suggested by Mangen & Associates, the company that provides financial services for the School. Fiscal Policy #10 states that all purchases must be initiated by obtaining written approval from the supervisor and certification of availability of funds from the Treasurer before purchases are incurred. This documentation will be in the form of a purchase order.

The School did not properly certify the availability of funds prior to purchase commitment for 57% of the expenditures tested, contrary to the approved fiscal policy.

Failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

The School's administration should ensure that all expenditures paid by the School follow the purchasing policy approved by the Board of Trustees.

Officials' Response:

The Academy's Board made changes in administrative leadership in the middle of the 2007-2008 school year. The new school leaders are now very familiar with the Academy's fiscal policies and understand the importance of securing treasurer certification of funds prior to incurring expenses.

FINDING NUMBER 2008-002

Significant Deficiency and Material Weakness

Financial Statement Presentation

A monitoring system should be in place to prevent or detect material misstatements for the accurate presentation of the School's financial statements.

The Accountant did not always accurately post receipts and disbursements to the School's accounting system and financial statements. The following posting errors were noted:

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

FINDING NUMBER 2008-002
(Continued)

Significant Deficiency and Material Weakness (Continued)

Financial Statement Presentation (Continued)

Posting Error	2008
Unemployment insurance expenses were posted to Other Expenses	$11,086
Long outstanding unposted reconciling items on bank reconciliation	31,217
Loans payable not recorded on financial statements	23,706
Accounts receivable amount adjusted due to un collectability	46,000
Accounts payable were unrecorded and understated.	11,237
Principal payments made on the School's line of credit were booked as "Other Expenses"	38,203

Not posting receipts, disbursements, liabilities, and receivables accurately to the ledgers resulted in the financial statements requiring numerous audit reclassifications and adjusting entries; furthermore, inaccurate accounting records could make it difficult for the Board of Trustees to effectively monitor the School's activities or identify misstatements or errors in a timely manner.

We recommend the School's Treasurer takes steps to ensure the accurate posting of all transactions to the ledgers. Cash receipts and disbursements should be posted in accordance with procedures and posting guidelines established in the USAS line item descriptions, GAAP and AOS Bulletins. By exercising accuracy in recording financial activity, the School can reduce posting errors and increase the reliability of the financial data throughout the year.

We also recommend the School implement additional procedures over the completeness and accuracy of financial information reported within the annual financial report. Such procedures may include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

The Schools financial statements and records have been adjusted to accurately reflect the proper line item classifications and totals.

Officials' Response:

A monitoring system is in place to ensure the accuracy of items posted to the ledgers and the completeness of financial information reporting within the Academy's annual report.

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

FINDING NUMBER 2008-003

Significant Deficiency and Material Weakness

Bank Reconciliations

Bank reconciliations should be performed on a monthly basis. Any adjustment should be made in the same month that they are found and the Board should have a policy to remove long outstanding checks from the School's books after a designated length of time.

The School had several reconciling items at year end totaling $31,217 that had to be adjusted to the ledgers. Of this, $25,613 was attributed to the non posting of employer retirement contributions and $968 was attributed to various purchased services. An additional $833 was attributed to the non posting of line of credit payments. The remaining $3,803 was from miscellaneous unposted expenses.

By not making adjustments in a timely manner, proper cutoff may not be achieved. In addition, it could hinder management in making informed decisions about the School's financial position and increases the risk that fraud could go undetected.

The School should ensure that all monthly book adjustments are made in a timely manner and create a policy for the removal and cancellation of outstanding checks after a designated period of time. In addition the Board should review and approve monthly bank reconciliations performed by the Treasurer.

Officials' Response:

Bank reconciliations and appropriate book adjustments for the Academy are performed on a monthly basis. The monthly bank reconciliations will be added to the monthly Board financial report.

CAPITOL CITY ACADEMY
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2007-001	Board did not follow policy on certifying availability of funds	No	Not Corrected – reissued as Finding 2008-001
2007-002	Financial Statement Presentation	No	Not Corrected – reissued as Finding 2008-002

Mary Taylor, CPA
Auditor of State

CAPITAL CITY 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
JUNE 2, 2009

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