



Mary Taylor, CPA
Auditor of State

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of Columbus Arts and Technology Academy, Franklin County, Ohio (the Academy), 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 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 Columbus Arts and Technology Academy, Franklin County, Ohio, as of June 30, 2008, 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.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 19 to the financial statements, the Academy's deficit net assets (\$1,435,825) and operating loss (\$925,500) raise substantial doubt about its ability to continue as a going concern. Note 19 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2009, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

March 4, 2009

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

The discussion and analysis of the Columbus Arts & Technology Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. 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 third year of operation during fiscal year 2008 serving grades kindergarten through seventh grade. Enrollment varied during the year but averaged 642 students.

Key highlights for fiscal year 2008 are as follows:

- Net assets decreased \$197,365 as compared to a decrease of \$93,289 for the prior fiscal year.
- Academy had an operating loss of \$925,500 compared to an operating loss of \$1,053,052 in the prior fiscal year.
- Total assets decreased \$136,705 primarily due to a significant decrease in intergovernmental receivable and prepaid items.
- Total liabilities increased \$60,660 primarily due to an increase in related party payables offset by a decrease in long term debt.

Overview of the Financial Statements

The financial report consists of three parts the management discussion and analysis, the basic financial statements and the notes to the 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 ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Table 1 provides a summary of Academy's net assets for 2008 compared to 2007:

Table 1
Net Assets

	2008	2007	Change
<u>Assets:</u>			
Current Assets	\$235,429	\$376,403	(\$140,974)
Capital Assets	174,433	170,164	4,269
Total Assets	<u>409,862</u>	<u>546,567</u>	<u>(136,705)</u>
<u>Liabilities:</u>			
Current Liabilities	1,814,198	1,626,076	188,122
Long-Term Liabilities	31,489	158,951	(127,462)
Total Liabilities	<u>1,845,687</u>	<u>1,785,027</u>	<u>60,660</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	124,836	150,633	(25,797)
Restricted for Other Purposes	553	103	450
Unrestricted	<u>(1,561,214)</u>	<u>(1,389,196)</u>	<u>(172,018)</u>
Total Net Assets	<u>(\$1,435,825)</u>	<u>(\$1,238,460)</u>	<u>(\$197,365)</u>

Total net assets decreased \$197,365. The cause of the decrease was the Board's recognition of the need to continue to offer programming that would accelerate learning of underperforming students faster than the traditional single grade level gains. The goal of the Board and management is to grow enrollment to be closer to the capacity of the facility at which point the Academy would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. For the fall of 2008, the Academy experienced a setback in enrollment that will delay the Academy's ability to move past a breakeven position and begin recovering the accumulated deficits. The school's management and administration have been working to contain costs to minimize the impact of the enrollment decline during fiscal year 2009. Based on continued analysis of enrollment data, the Board and its management are committed to following the plan to 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 over the long term and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs are being made available by delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses, and personnel services.

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Table 2 reflects the changes in net assets for fiscal year 2008 as compared to 2007.

Table 2
Change in Net Assets

	2008	2007	Change
<u>Operating Revenues:</u>			
Foundation	\$4,169,193	\$3,810,756	\$358,437
Charges for Services	129,311	96,811	32,500
Miscellaneous	3,262	0	3,262
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	838,735	1,038,454	(199,719)
Total Revenues	\$5,140,501	\$4,946,021	\$194,480
<u>Operating Expenses:</u>			
Building	886,663	819,396	67,267
Purchased Services	3,935,674	3,637,404	298,270
Depreciation	47,323	43,954	3,369
General Supplies	311,129	431,624	(120,495)
Other Operating Expense	46,477	28,241	18,236
<u>Non-Operating Expenses:</u>			
Interest	110,600	78,691	31,909
Total Expenses	\$5,337,866	\$5,039,310	\$298,556
Total Increase (Decrease) in Net Assets	(\$197,365)	(\$93,289)	(\$104,076)

Fiscal year 2008 showed an increase in revenues and expenses which is primarily due to an increase in the number of students from 602 in fiscal year 2007 to 642 in fiscal year 2008.

Budgeting

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

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the Academy had \$174,433 invested in capital assets (net of accumulated depreciation) for construction in progress, leasehold improvements, computer and other equipment, an increase of \$4,269 or 2.5 percent. The following table shows fiscal year 2008 compared to 2007:

Capital Assets at June 30 (Net of Depreciation)

	2008	2007	Change
Construction In Progress	\$33,377	\$33,377	\$0
Leasehold Improvements	28,348	31,530	(3,182)
Furniture & Equipment	112,708	105,257	7,451
	\$174,433	\$170,164	\$4,269

The increase reflects computer and equipment that was purchased during fiscal year 2008. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

At June 30, 2008, the Academy had \$49,596 in capital leases outstanding, of which \$18,107 is due within one year. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2008.

Outstanding Debt, at Year End

	2008	2007	Change
Capital Leases Payable	\$49,596	\$19,531	\$30,065
Mosaica Education Promissory Note	0	411,104	(411,104)
Total	\$49,596	\$430,635	(\$381,039)

For further information regarding the Academy's debt, refer to Note 13 of 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 ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

Operations

Columbus Arts & Technology Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operation. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any question concerning this report, please contact Robert Schirhart, Controller/Treasurer of the Columbus Arts & Technology Academy, 3333 Chippewa Street, Columbus, Ohio 43204.

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**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 12,825	
Accounts Receivable	239	
Intergovernmental Receivable	198,422	
Prepaid Expense	23,943	
Total current assets	235,429	

Noncurrent assets:

Nondepreciable Capital Assets	33,377	
Depreciable Capital Assets, net of Accumulated Depreciation	141,056	
Total assets	409,862	

Liabilities:

Current liabilities:

Accounts Payable, Trade	165,596	
Accounts Payable, Related Party	1,619,684	
Accrued Interest	386	
Deferred Revenue	10,425	
Current Portion of Long-term Debt	18,107	
Total current liabilities	1,814,198	

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt	31,489	
Total liabilities	1,845,687	

Net Assets

Invested in Capital Assets, Net of Related Debt	124,836	
Restricted for Other Purposes	553	
Unrestricted Net Assets	(1,561,214)	
Total Net Assets	\$(1,435,825)	

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Operating Revenues:	
Community School Foundation	\$ 4,169,193
Charges for Services	129,311
Miscellaneous	3,262
Total Operating Revenues	<u>4,301,766</u>
Operating Expenses:	
Building	886,663
Purchased Services	3,935,674
Depreciation	47,323
General Supplies	311,129
Other Operating Expenses	46,477
Total Operating Expenses	<u>5,227,266</u>
Operating Loss	<u>(925,500)</u>
Nonoperating Revenues and Expenses:	
Federal and State Restricted Grants	838,735
Interest Expense	(110,600)
Net Nonoperating Revenues and Expenses	<u>728,135</u>
Change in Net Assets	(197,365)
Net Assets (Deficit) Beginning of Year	<u>(1,238,460)</u>
Net Assets (Deficit) End of Year	<u><u>\$ (1,435,825)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES

Foundation Receipts	\$ 3,888,486
Charges for Services	129,072
Other Operating Receipts	3,262
Cash Payments to Suppliers for Goods and Services	<u>(4,370,354)</u>
Net Cash Used for Operating Activities	<u>(349,534)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short-term Financing Payments	(60,050)
Federal and State Grant Receipts	<u>924,611</u>
Net Cash Provided by Noncapital Financing Activities	<u>864,561</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	(7,200)
Note Payable Interest Payments	(104,851)
Note Payable Principal Retirement	(411,104)
Capital Lease Interest Payments	(3,963)
Capital Lease Principal Retirement	<u>(14,326)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(541,444)</u>

Net Decrease in Cash and Cash Equivalents	(26,417)
Cash and Cash Equivalents - Beginning of the Year	<u>39,242</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 12,825</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	<u>\$ (925,500)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	47,323
Changes in assets and liabilities:	
Increase in Receivables	(239)
Decrease in Prepaid Expense	28,919
Decrease in Accounts Payable, Trade	(65,806)
Increase in Accounts Payable, Related Party	555,344
Increase in Deferred Revenue	<u>10,425</u>
Net Cash Used for Operating Activities	<u>\$ (349,534)</u>

Noncash capital and related financing activities

The Academy entered into a capital lease agreements for \$44,391 for the purchase of furniture and equipment.

See Accompanying Notes to the Basic Financial Statements

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**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Note 1 - Description of the School

The Columbus Arts & Technology Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operation. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of four academic years commencing after July 1, 2004 and ending June 30, 2008. 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. Subsequent to year end, the Academy's contract with Ohio Council of Community Schools was renewed for a ten year term set to expire on June 30, 2018.

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

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 17.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2008.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2008, 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 2008 consisted of building leasehold improvements, 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. Building leasehold improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital assets, except construction in progress, are depreciated. Building leasehold improvements are depreciated over the remaining term of the lease. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Furniture and Equipment	5-20 years
Leasehold Improvements	10 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2008, there were no net assets restricted by enabling legislation.

The statement of net assets reports \$553 in restricted net assets related to various entitlement grant receipts in excess of funds expended and \$124,836 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 98% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

Note 3 – Changes in Accounting Principles

For fiscal year 2008, the Academy has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures". The implementation of GASB Statement 45 did not have an effect on the financial statements of the Academy; however, certain disclosures related to postemployment benefits (Refer to Note 10) have been modified to conform to the new reporting requirements. The implementation of GASB Statement 48 and GASB Statement 50 did not have effect on the financial statements for the Academy.

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2008, the bank balance of Academy's deposits was \$20,890. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2008, the Academy had intergovernmental receivables, in the amount of \$198,422. The receivables are expected to be collected within one year.

Grant	Amount
National School Lunch Programs	\$17,871
Title I	137,204
Title II A	7,768
Title II D	4,698
Title V	1,077
IDEA	29,804
Total Intergovernmental Receivables	\$198,422

Note 6 - Capital Assets

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

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Nondepreciable Capital Assets				
Leasehold Improvements				
Construction in Progress	\$33,377	\$0	\$0	\$33,377
Depreciable Capital Assets				
Leasehold Improvements--Buildings	34,712	0	0	34,712
Furniture & Equipment	219,288	51,592	0	270,880
Less Accumulated Depreciation	(117,213)	(47,323)	0	(164,536)
Total Depreciable Capital Assets	\$136,787	\$4,269	\$0	\$141,056
Total Capital Assets	\$170,164	\$4,269	\$0	\$174,433

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 2008, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(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
Buildings	6,337,800
Business Personal Property	810,400
Excess/Umbrella Liability:	
Each Occurrence	8,000,000
Aggregate Limit	8,000,000

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

Note 8 – Purchased Services

For the period July 1, 2007 through June 30, 2008, purchased service expenses were as follows:

Purchased Services	Amount
Personnel Services	\$2,538,775
Building Services	201,997
Food Service	246,343
Student Services	129,350
Management Fee	642,244
Staff and Administrative Services	66,762
Professional Services	17,143
Sponsor Services	83,681
Advertising	9,379
Total	<u><u>\$3,935,674</u></u>

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 9 – Defined Benefit Pension Plans

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

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 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 Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$38,176, \$39,210 and \$33,517 respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

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

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2008, 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 2007, 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, 2008, 2007, and 2006 were \$199,322, \$188,858 and \$143,350 respectively; 100 percent has been contributed for the fiscal years 2008, 2007, and 2006. No contributions were made to the DC and Combined Plans for the fiscal year 2008 by the Academy and the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2008, none of the Academy staff have elected Social Security.

Note 10 – Postemployment Benefits

A. School Employees Retirement System

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

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 10 – Postemployment Benefits (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 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 Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$17,421, \$12,186 and \$10,834 respectively; 100 percent has been contributed for fiscal year 2008, 2007, and 2006.

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 Academy's contributions for Medicare Part B for the fiscal year ended June 30, 2008 was \$2,751; 100 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$15,333, \$14,521, and \$11,027 respectively; 85 percent has been contributed for fiscal year 2008; 100 percent has been contributed for fiscal years 2007 and 2006.

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, 2008.

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 11 – Contingencies (Continued)

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected the Academy owed \$10,425 to the Ohio Department of Education. This is reported as part of deferred revenue on the June 30, 2008 Statement of Net Assets.

Note 12 – Building Leases

The Academy has entered into a lease for the period from July 1, 2004 through June 30, 2019 with ECE Company, LLC a wholly owned subsidiary of Mosaica Education, Inc. for the use of the main building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 17. Rent charges and allowable facility cost passed through totaled \$886,663 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, excluding allowable facility cost passthroughs, required under the operating as of June 30, 2008:

Fiscal Year Ending June 30	Amount
2009	812,972
2010	832,577
2011	856,860
2012	874,205
2013	899,703
2014	917,916
2015	944,688
2016	963,811
2017	991,993
2018	1,012,002
2019	421,668
Total minimum lease payments	<u>\$9,528,395</u>

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 13 – Long-Term Obligations

Changes in the Academy's long-term obligations during fiscal year 2008 were as follows:

	Balance <u>7/1/2007</u>	Additions	Reductions	Balance <u>6/30/2008</u>	Amount Due Within One Year
Mosaica Education Promissory Note	\$411,104	\$0	(\$411,104)	\$0	\$0
Capital Leases Payable	19,531	44,391	(14,326)	49,596	18,107
Long-Term Obligations	<u>\$430,635</u>	<u>\$44,391</u>	<u>(\$425,430)</u>	<u>\$49,596</u>	<u>\$18,107</u>

Mosaica Education Promissory Note - On May 9, 2006, the Academy entered into a promissory note with Mosaica Education, Inc for the purpose of establishing a payment plan for some outstanding accounts payables. During fiscal year 2008 the Academy retired the remaining principal balance.

Note 14 – Capital Lease-Lessee Disclosure

The Academy has entered into capitalized leases for the use of computer equipment and furniture. Each lease meets the criteria of capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. Principal payments in 2008 were \$14,326.

	Amount
Furniture and Equipment	\$75,249
Less Accumulated Depreciation	(9,591)
Total June 30, 2008	<u>\$65,658</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, 2008.

Capital Lease		
Fiscal Year Ending June 30	Principal	Interest
2009	\$18,107	\$3,570
2010	\$9,936	\$2,263
2011	\$9,028	\$1,440
2012	\$7,715	\$767
2013	\$4,810	\$137
Total	<u>\$49,596</u>	<u>\$8,177</u>

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 15 – Operating Leases

In September of 2004, the Academy entered into an operating lease for three years with ACC Capital Corporation, for the use of classroom furnishings. During 2008, the Academy retired the remaining balance of lease obligations and was able to negotiate a fair market value buyout of the assets that were leased.

Note 16 –Tax Exempt Status.

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

Note 17 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2008 was \$642,244. In addition, upon termination of the agreement due to nonperformance by either party, or in the event of nonrenewal upon expiration of the agreement, the Academy must pay Mosaica Education, Inc \$100,000 per year for three consecutive years.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual cost incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries, of Mosaica Education, Inc employees working at the Academy, and other costs related to providing educational and administration services. The total expenses paid to Mosaica Education Inc during fiscal year 2008 were \$3,404,428.

At June 30, 2008, the Academy had payables to Mosaica Education, Inc. in the amount of \$1,619,684. The following is a schedule of payables owed to Mosaica Education, Inc.

	<u>Amount</u>
Payroll	\$615,022
Management Fee	265,630
Building Rent and Tax Passthrough	698,251
Interest/Finance Charges	12,344
Miscellaneous	28,437
Total June 30, 2008	<u><u>\$1,619,684</u></u>

Note 18 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools Council (the Sponsor) for a period of four academic years commencing July 1, 2004. As part of this contract, the Sponsor is entitled to a maximum of 3% of all revenues. Total amount due and paid for fiscal year 2008 was \$83,681.

**COLUMBUS ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

Note 19 – Management’s Plan

For fiscal year 2008, the Academy had an operating loss of \$(925,500), a decrease in net assets of \$(197,365), and net asset deficit of \$(1,435,825). Projected revenues and expenses for fiscal year 2009 indicate these financial difficulties will continue during fiscal year 2009. As of February 28, 2009 the Academy’s change in net assets was \$(97,778) and net asset deficit was \$(1,533,603).

Final full-time equivalent student enrollment was 642, 602, 525 and 330 students for the fiscal years ending June 30, 2008, 2007, 2006, and 2005, respectively. Current full-time equivalent student enrollment as of February 2009 is 492 students.

As of March 4, 2009, the Board of Directors has not approved plans to address these concerns.

Mosaica Education Inc. plans to increase enrollment through active advertising via print, radio, mailings, and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to no operating losses in future years.

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<u>United States Department of Agriculture</u> <i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Federal School Breakfast Program	10.553	\$ 65,157	\$ 65,157
National School Lunch Program	10.555	234,985	234,985
Total U.S. Department of Agriculture-Nutrition Cluster		<u>300,142</u>	<u>300,142</u>
<u>United States Department of Education</u> <i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	440,656	420,835
Special Education Cluster:			
Special Education Grants to States	84.027	140,092	143,168
Special Education Preschool Grant	84.173	51	-
Total Special Education Cluster		<u>140,143</u>	<u>143,168</u>
Safe and Drug Free School and Communities State Grants	84.186	2,092	1,806
State Grants for Innovative Programs	84.298	881	1,103
Improving Teacher Quality State Grants	84.367	9,606	9,236
Education Technology State Grants	84.318	2,345	300
Public Charter School Grant	84.282	-	1,896
Total United States Department of Education		<u>595,723</u>	<u>578,344</u>
TOTAL FEDERAL AWARDS		<u>\$ 895,865</u>	<u>\$ 878,486</u>

The accompanying notes are an integral part of this schedule.

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the Academy's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - TRANSFERS

The Academy generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with ODE's approval, an Academy can transfer unspent Federal assistance to the succeeding year, thus allowing the Academy a total 27 months to spend the assistance. During fiscal year 2008, the Ohio Department of Education (ODE) authorized the following transfers:

CFDA Number	Program Title	Grant Year	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	2007	\$29,172	
84.010	Title I Grants to Local Educational Agencies	2008		\$29,172
84.367	Improving Teacher Quality State Grants	2007	\$1,054	
84.367	Improving Teacher Quality State Grants	2008		\$1,054
84.318	Education Technology State Grants	2007	\$1,067	
84.318	Education Technology State Grants	2008		\$1,067
84.186	Safe and Drug Free Schools State Grants	2007		\$2,625
84.186	Safe and Drug Free Schools State Grants	2008		\$2,625
84.027	Special Education State Grants	2007		\$22,319
84.027	Special Education State Grants	2008		\$22,319
84.173	Early Childhood Special Education State Grants	2007		\$1,032
84.173	Early Childhood Special Education State Grants	2008		\$1,032



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

To the Board of Directors:

We have audited the basic financial statements of Columbus Arts and Technology Academy, Franklin County, Ohio, (the Academy), as of and for the year ended June 30, 2008, and have issued our report thereon dated March 4, 2009 wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A 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 Academy'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 Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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

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

We noted certain matters that we reported to the Academy's management in a separate letter dated March 4, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2008-001 and 2008-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 4, 2009.

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

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



Mary Taylor, CPA
Auditor of State

March 4, 2009



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

Compliance

We have audited the compliance of Columbus Arts and Technology Academy (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

As described in item 2008-004 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding eligibility applying to its Title I program. Compliance with this requirement is necessary, in our opinion, for the Academy to comply with requirements applicable to those programs. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2008-003.

In our opinion, except for the noncompliance described in the preceding paragraph, the Columbus Arts and Technology Academy complied, in all material respects, with the requirements referred to above applying to each of its major federal programs for the year ended June 30, 2008.

In a separate letter to the Academy's management dated March 4, 2009, we reported a matter related to federal noncompliance not requiring inclusion in this report.

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www.auditor.state.oh.us

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned function, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to administer a federal program such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect more-than-inconsequential non-compliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2008-003 and 2008-004 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the Academy's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs we consider 2008-004 to be a material weakness. We also noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that were reported to the Academy's management in a separate letter dated March 4, 2009.

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

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



Mary Taylor, CPA
Auditor of State

March 4, 2009

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies—CFDA #84.010 <u>Nutrition Cluster</u> Federal School Breakfast Program- CFDA # 10.553 National School Lunch Program- CFDA #10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

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

FINDING NUMBER 2008-001

Finding for Recovery-Repaid Under Audit

The Academy signed a three year Promissory Note Agreement dated June 30, 2005 between the Academy and Mosaica Education, Inc., the Academy's management company, for \$446,104.26, with interest thereon from June 30, 2005, at an initial interest rate of 9.00% per annum.

The Academy paid the total outstanding principal and interest owed on the promissory note to Mosaica Education, Inc. Pursuant to the terms of the Promissory Note Agreement, the total interest owed over the term of the promissory note was \$108,020. However, the Academy actually paid \$125,938 in interest during this period.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against, Mosaica Education, Inc., in the amount of \$17,918 and in favor of the Columbus Arts and Technology Academy.

The Finding for Recovery was repaid under audit by Mosaica Education, Inc to the Columbus Arts and Technology Academy on February 16, 2009.

Officials' Response

The management company has repaid the amount of interest that was billed in error.

FINDING NUMBER 2008-002

Board Members-Noncompliance

Ohio Revised Code § 3314.02(E) states in part that each new start-up community school established under this chapter shall be under the direction of a governing authority in which no person shall serve on the governing authorities of more than two start-up community schools at the same time.

The Academy's Board of Directors also served as the Board of Directors of the Columbus Preparatory Academy, the Columbus Humanities Arts and Technology Academy, and the Cornerstone Academy until December 2007.

We recommend that the Board of Directors continue to consist of at least five members and serve as the Board of Directors for no more than two community schools at the same time.

Officials' Response

The Academy's Board has recruited sufficient new members to enable it to be in compliance with the minimum number per ORC Section 3314.02(E).

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Nutrition Cluster- Verification of Free and Reduced Price Applications

Finding Number	2008-003
CFDA Title and Number	Federal School Breakfast Program-CFDA # 10.553 National School Lunch Program-CFDA #10.555
Federal Award Year	2008
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency

7 C.F.R. Section 245.6 provides that each child receiving free and reduced lunches must annually submit an application to the Academy. The Academy must then certify a child's family income and family size and place him/her within income eligibility standards issued by the Office of Food Nutrition Services. The application must be approved and maintained on file.

7 C.F.R. Section 245.6a(b) requires that by November 15th of each school year a participating school must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals. The verification sample size is based on the total number of approved applications on file on October 1. The participating school may select the sample by the methods specified in 7 C.F.R. Section 245.6a(c).

The Academy did not provide documentation to support that the required eligibility verifications were completed for fiscal year 2008.

We recommend that the Academy maintain documentation related to the annual eligibility verification procedures completed including the applications verified and the supporting evidence gathered from all the households verified.

Officials' Response/Corrective Action Plan:

Management provided the verification binder/summary report to AOS auditors during audit fieldwork. The Academy's Treasurer recalls giving the binder, a 3 or 4 inch binder with a cover that said "Food Service Applications/Verifications" to AOS auditors. Since that time, management has searched for but has been unable to locate the missing verification binder at the Academy or the Accounting office.

Ranay Nunamaker and Latrice Hicks, the Academy's Chief Administrative Officer are the parties responsible for ensuring that records are available for the fall 2008 verification.

Auditor of State Conclusion:

AOS staff requested documentation of the verification process procedures completed to determine eligibility for the free and reduced lunch program. However, the requested information was not observed by the AOS staff.

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

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

Finding Number	2008-004
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness

Title I, Section 1115 of the Elementary and Secondary Education Act (ESEA) (20 U.S.C. Section 6315) provides that Title I, Part A, funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas, a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging student academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the LEA and supplemented by the school.

Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards and are thus eligible for Part A services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; children who received services under the Migrant Education Program under Title I, Part C at any time in the two preceding years; and children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services.

Written documentation of the criteria used to determine the students to be served through Title I services provided through the after-school, in-class, and summer school programs were not maintained for the 2006/2007 school year. The Title I staff stated that two out of three criteria must be met in order to determine students to be served. Those three criteria were student test scores, lower than average class grades, and parent recommendations.

The Academy did not maintain a list of students serviced through in-class assistance or summer schools for the 2006/2007 school year and the 2007 summer program. Therefore, individual student eligibility could not be verified to supporting test scores, student grade documentation, and parent recommendations. In addition, no documentation was maintained by the Academy related to the parent recommendations. For the 2007/2008 school year proper written documentation of the students served and the criteria utilized to determine those served was maintained by the Academy.

Accordingly, a questioned cost is issued in the amount of \$88,171, the amount the Academy expended in 2007 Title I grant in fiscal year 2008.

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

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

Finding Number	2008-004 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies—CFDA #84.010
Federal Award Number / Year	C1S1-2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Questioned Costs/Significant Deficiency/Material Weakness (Continued)

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

Officials' Response/Corrective Action Plan

Columbus Arts and Technology Academy offers the following services: in class assistance, after school tutoring, and summer school. The students in the In School Title I program were identified as being eligible using specific criteria. For the 2007/2008 school year all information pertaining to the students in this program was kept and maintained in binders, one for each semester. Each binder being divided up into sections for permission slips, compacts and testing information on each student. The students serviced were marked in red to show that they were being serviced through Title I. Not many requests were received, however, upon verbal request from the parent, the student then received Title I services.

A corrective action plan in response to prior year finding 2007-008 was submitted November 12, 2008 by the Academy's administration.

**COLUMBUS ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315(b)
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Debt Payments in Accordance with Promissory Note Agreement	Yes	
2007-002	Governing Authority- Board Members	No	Partially corrected; this finding is being repeated as finding: 2008-002.
2007-003	Timely Deposits- Noncompliance	No	Partially corrected; this finding is being repeated in the management letter.
2007-004	Board Monitoring	No	Partially corrected: this finding is being repeated in the management letter.
2007-005	Monitoring of Purchased Services	No	Partially corrected: this finding is being repeated in the management letter.
2007-006	Ohio Department of Education Federal Report Procedures #1-- Title I and Public Charter School-Reporting	No	Partially corrected: this finding is being repeated in the management letter.
2007-007	Title I, Section 1115 of ESEA (20 U.S.C. Section 6315)-Title I Period of Availability	Yes	
2007-008	Title I, Section 1115 of ESEA (20 U.S.C. Section 6315)-Title I Student Eligibility	No	Not corrected; this finding is being repeated as finding: 2008-004.
2007-009	Title I, Section 1115 of ESEA (20 U.S.C. Section 6315)-Title I Level of Effort	No	Partially corrected: this finding is being repeated in the management letter.
2007-010	Title I, Section 1115 of the ESEA (20 U.S.C. Section 6315)—Title I Activities Allowed and Allowable Costs/Cost Principles	No	Partially corrected: this finding is being repeated in the management letter.



Mary Taylor, CPA
Auditor of State

COLUMBUS ARTS AND TECHNOLOGY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 7, 2009**