



Rea & associates *a brighter way*

# Cornerstone Academy Franklin County, Ohio

## *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2013





# Dave Yost • Auditor of State

Board of Trustees  
Cornerstone Academy  
6025 East Walnut Street  
Westerville, Ohio 43081

We have reviewed the *Independent Auditor's Report* of the Cornerstone Academy, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cornerstone Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

February 10, 2014

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**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

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December 20, 2013

To the Board of Trustees  
Cornerstone Academy  
Franklin County, Ohio  
6025 East Walnut Street  
Westerville, Ohio 43081

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Cornerstone Academy, Franklin County, Ohio (the "Academy") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Academy, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 18 to the financial statements, the Academy's deficit net position (\$2,899,753) and change in net position (\$1,002,766) raise substantial doubt about its ability to continue as a going concern. Note 18 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's financial statements. The schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

Medina, Ohio

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED*

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The discussion and analysis of the Cornerstone Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2013. 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 fifth year of operations since emerging from a temporary voluntary suspension of operations during fiscal year 2008 serving Kindergarten through eighth grade. The Academy suspended operations during the period October 1, 2006 through June 30, 2007 and resumed operations July 1, 2007. Enrollment varied during fiscal year 2013 but ended with 492 students.

Key highlights for fiscal year 2013 are as follows:

- Net position decreased \$1,002,766 as compared to a surplus of \$290,921 generated in fiscal year 2012.
- Enrollment increased from 458 in fiscal year 2012 to 492 in fiscal year 2013.
- Total revenue increased from \$3,653,957 in fiscal year 2012 to \$4,195,619 in fiscal year 2013.
- Operating expenses (excluding interest expense and bond issuance costs) increased from \$3,246,969 in fiscal year 2012 to \$3,619,427 in fiscal year 2013.
- The Academy completed its bond offering of \$10,140,000 and acquisition of its land and building in July 2012.

**Overview of the Financial Statements**

The financial report consists of three parts - management discussion and analysis, the basic financial statements, and the notes to the 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 position. The statement of net position represents the statement of position of the Academy. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g. expenses) in net total position. 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 a 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.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)*

The following table represents the Academy's statement of net position:

Table 1  
Net Position

	June 30, 2013	June 30, 2012	Change
<u>Assets:</u>			
Current Assets	\$745,318	\$126,882	\$618,436
Noncurrent Assets	8,876,236	95,684	8,780,552
Total Assets	<u>9,621,554</u>	<u>222,566</u>	<u>9,398,988</u>
<u>Liabilities:</u>			
Current Liabilities	1,491,609	854,751	636,858
Noncurrent Liabilities	11,029,697	1,264,802	9,764,895
Total Liabilities	<u>12,521,306</u>	<u>2,119,553</u>	<u>10,401,753</u>
<u>Net Position:</u>			
Net Invested in Capital Assets	(942,939)	41,118	(984,057)
Restricted for Other Purposes	372,763	0	372,763
Unrestricted	(2,329,577)	(1,938,105)	(391,472)
Total Net Position	<u>(\$2,899,753)</u>	<u>(\$1,896,987)</u>	<u>(\$1,002,766)</u>

Results of fiscal year 2013 indicate an ending net deficit position of \$2,899,753, an increase of negative net position of \$1,002,766 from fiscal year end 2012. The fiscal year 2013 deficit is the result of the costs associated with the Academy's \$10,140,000 bond offering and acquisition of its building including one-time costs of approximately \$711,963. However, looking towards fiscal 2014, enrollment has increased by 10% to approximately 550 students and the Academy is projecting to earn a surplus. The existing facility is approximately 35,000 square feet. The Academy plans to use part of the bond proceeds to construct a 14,000 square foot addition to the existing facility. When completed, the facility (including the addition) will accommodate approximately 750 students.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)*

Changes in Net position – The following table shows the changes in net position for the following fiscal periods:

Table 2  
Change in Net Position

	Year ended June 30, 2013	Year ended June 30, 2012	Change
<u>Operating Revenues:</u>			
Foundation	\$3,213,954	\$2,931,570	\$282,384
Charges for Services	144,529	116,025	28,504
Forgiveness of Debt	247,122	0	247,122
Miscellaneous	33,209	3,364	29,845
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	556,805	602,998	(46,193)
<b>Total Revenues</b>	<b>4,195,619</b>	<b>3,653,957</b>	<b>541,662</b>
<u>Operating Expenses:</u>			
Salaries	0	112,305	(112,305)
Benefits	0	29,650	(29,650)
Building	214,311	479,633	(265,322)
Purchased Services	2,928,756	2,395,708	533,048
Depreciation	306,010	33,375	272,635
General Supplies	118,705	177,700	(58,995)
Other Operating Expense	51,645	18,598	33,047
<u>Non-Operating Expenses:</u>			
Bond Issuance Costs	711,963	0	711,963
Interest	866,995	116,066	750,929
<b>Total Expenses</b>	<b>5,198,385</b>	<b>3,363,035</b>	<b>1,835,350</b>
<b>Change in Net Position</b>	<b>(\$1,002,766)</b>	<b>\$290,922</b>	<b>(\$1,293,688)</b>

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain management services, other operating expenses and invoices for payroll of Academy staff. Salaries and Benefits decreased due to the Ed Jobs Grant expiring, which required the employees to be paid from the Academy's resources versus the management company.

Total expenses have increased \$1,835,350 in fiscal year 2013 as compared to fiscal year 2012. A substantial portion of the increased costs relate to the Academy's July 2012 bond offering and acquisition of its building. Included in the costs above is a one-time bond issuer fee of \$711,963 and an increase in depreciation of \$272,635. Depreciation is a non-cash expense. Moreover, the Academy's enrollment has increased to approximately 550 students. The student increase will help the Academy achieve operating surplus in fiscal year 2014.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)*

**Budgeting**

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

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2013, the Academy had \$8,040,111 (net of accumulated depreciation) invested in capital assets. The following table summarizes Capital Asset activity for the fiscal year ended June 30, 2013:

	June 30, 2013	June 30, 2012	Increase (Decrease)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Land	\$ 1,018,700	\$ -	\$ 1,018,700
Building	7,185,192	-	7,185,192
Leasehold improvements	34,783	34,783	-
Furniture and equipment	175,530	170,779	4,751
Computer equipment	<u>139,182</u>	<u>97,388</u>	<u>41,794</u>
Total asset cost	8,553,387	302,950	8,250,437
Accumulated depreciation	<u>(513,276)</u>	<u>(207,266)</u>	<u>(306,010)</u>
Net capital assets	<u>\$ 8,040,111</u>	<u>\$ 95,684</u>	<u>\$ 7,944,427</u>

For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)*

**Debt**

At June 30, 2013, the Academy had total debt of \$11,134,571. Included in this amount is: (i) the \$10,140,000 bond offering of which no principal payments due within one year, (ii) \$25,925 of capital lease obligations for technology and furniture and fixtures of which \$22,282 is due within one year, and (iii) \$1,156,285 related to a \$1,238,877 promissory note executed in 2012 payable to Mosaica Education, Inc., a related party (see note 16), to finance outstanding invoices for services and/or reimbursable expenses over a multi-year term at a fixed interest rate of 7.0% of which \$82,592 is due within one year. The following table summarizes the Academy's debt activity for the fiscal year ended June 30, 2013:

	<u>Balance at June 30, 2012</u>	<u>New Borrowings</u>	<u>Principal Payments</u>	<u>Balance at June 30, 2013</u>
Revenue Bonds, net of discount	\$ -	\$ 9,952,361	\$ -	\$ 9,952,361
Capital leases payable	54,567	-	28,642	25,925
Promissory note payable	1,238,877	-	82,592	1,156,285
Total debt payable	<u>\$ 1,293,444</u>	<u>\$ 9,952,361</u>	<u>\$ 111,234</u>	<u>\$ 11,134,571</u>

For further information regarding the Academy's debt, refer to Note 14 to the basic financial statements.

**Economic Factors**

With the exception of a change in State law that, effective in September 2011, states that local taxing authorities can no longer assess real estate taxes against community schools that lease facilities from for-profit landlords, management is not currently aware of any facts, decision or condition that has occurred that are expected to have a significant effect on the financial position or results of operation. This tax law change is expected to save the Academy in excess of \$100,000 on an annual basis going forward. The tax law change is not retroactive, but the past liability for assessed property taxes has already been reflected in these and the previously issued audited financial statements of the Academy.

**Operations**

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through eighth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

**Requests for Information**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact the administrative office for Cornerstone Academy at 6015 E. Walnut, Westerville, Ohio 43081.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**STATEMENT OF NET POSITION  
JUNE 30, 2013**

**Assets:**

***Current assets:***

Cash and Cash Equivalents	\$200,612
Escrow Accounts	525,638
Accounts Receivable	5,256
Intergovernmental Receivable	4,268
Prepaid Expense	9,544
<b>Total current assets</b>	<u>745,318</u>

***Noncurrent assets:***

Bond Reserve Accounts	836,125
Non Depreciable Capital Assets	1,018,700
Capital Assets, net of Accumulated Depreciation	7,021,411
<b>Total noncurrent assets</b>	<u>8,876,236</u>

<b>Total assets</b>	<u>9,621,554</u>
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**Liabilities:**

***Current liabilities:***

Accounts Payable, Trade	242,675
Accounts Payable, Related Party	739,460
Accrued Interest Payable	404,600
Current Portion of Long-term Debt	104,874
<b>Total current liabilities</b>	<u>1,491,609</u>

***Noncurrent liabilities:***

Noncurrent Portion of Long-term Debt	11,029,697
<b>Total noncurrent liabilities</b>	<u>11,029,697</u>

<b>Total liabilities</b>	<u>12,521,306</u>
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**Net Position**

Net Invested in Capital Assets	(942,939)
Restricted for Other Purposes	372,763
Unrestricted	(2,329,577)
<b>Total Net Position</b>	<u>(\$2,899,753)</u>

**See Accompanying Notes to the Basic Financial Statements**

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013**

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**Operating Revenues:**

Community School Foundation	\$3,213,954
Charge for Services	144,529
Forgiveness of Accounts Payable, related party	247,122
Miscellaneous	33,209
<b>Total Operating Revenues</b>	<b><u>3,638,814</u></b>

**Operating Expenses:**

Building	214,311
Purchased Services	2,928,756
Depreciation	306,010
General Supplies	118,705
Other Operating Expenses	51,645
<b>Total Operating Expenses</b>	<b><u>3,619,427</u></b>

**Operating Income** 19,387

**Nonoperating Revenues and (Expenses):**

Federal and State Restricted Grants	556,805
Bond Issuance Costs	(711,963)
Interest Expense	(866,995)
<b>Net Nonoperating Revenues and (Expenses)</b>	<b><u>(1,022,153)</u></b>

<b>Change in Net Position</b>	(1,002,766)
<b>Net Position Beginning of Year</b>	(1,896,987)
<b>Net Position End of Year</b>	<b><u><u>(\$2,899,753)</u></u></b>

**See Accompanying Notes to the Basic Financial Statements**

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Foundation Receipts	\$3,208,234
Charge for Services	144,529
Miscellaneous	33,209
Cash Payments to Suppliers for Goods and Services	(2,827,852)
Net Cash Provided by Operating Activities	558,120

**CASH FLOWS FROM INVESTMENT ACTIVITIES**

Purchase of Assets	(8,250,436)
Net Cash Used for Investment Activities	(8,250,436)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Short-term Financing Payments	(3,622)
Federal and State Grant Receipts	581,537
Net Cash Provided by Noncapital Financing Activities	577,915

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Facility Bond Proceeds	9,952,361
Facility Bond Interest Payments	(389,620)
Facility Bond Issuance Costs	(711,963)
Increase in Escrow and Reserve Accounts	(1,361,763)
Note Payable Interest Payments	(68,406)
Note Payable Principal Payments	(82,592)
Capital Lease Interest Payments	(953)
Capital Lease Principal Retirement	(28,642)
Net Cash Provided for Capital and Related Financing Activities	7,308,422

Net Increase in Cash and Cash Equivalents	194,021
Cash and Cash Equivalents - Beginning of the Year	6,591
Cash and Cash Equivalents - Ending of the Year	\$200,612

**Reconciliation of Operating Income to Net Cash Provided By Operating Activities**

Operating Income	\$19,387
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**Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities**

Depreciation	306,010
Changes in assets and liabilities:	
Decrease in Accounts Receivable	83,431
Increase in Prepaid Expense	(6,940)
Increase in Accounts Payable, Trade	108,959
Increase in Accounts Payable, Related Party	52,993
Decrease Deferred Revenue	(5,720)
<b>Net Cash Provided By Operating Activities</b>	<b>\$558,120</b>

Non-Cash Capital Transactions  
Facility Bonds were issued at a discount of \$187,639.

**See Accompanying Notes to the Basic Financial Statements**

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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**Note 1 - Description of the School**

The Cornerstone Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in kindergarten and grades 1 through 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 contract with the Ohio State Board of Education commencing on July 1, 2000. The Academy began the 2005-06 fiscal year under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2011. In June of 2011, the Sponsor renewed the charter contract for five academic years ending June 30, 2015. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 16.

**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 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 position; a statement of revenues, expenses, and changes in net position; 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 position, financial position, and cash flows.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**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 position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

**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 schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy, but it does require that estimated budgets be submitted to the Sponsor prior to the start of each fiscal year.

**E. Cash and Cash Equivalents**

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. The Academy had no investments during the period ended June 30, 2013.

**F. Capital Assets**

The Academy's capital assets during the year ended June 30, 2013 consisted of land, building and improvements, leasehold improvements, computers, furniture and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

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

<u>Description</u>	<u>Useful Lives</u>
Building and Building Improvements	30 years
Leasehold Improvements	15 years
Computers and Equipment	5 years
Furniture, Fixtures, and Equipment	5-20 years

**G. Net position**

Net position represents the difference between assets and liabilities. Net position is 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 position is available. At June 30, 2013, the Academy reported \$372,763 in restricted net position for cash in escrow and reserve accounts, net of related debt and grant agreements and (\$942,939) of net position invested in capital assets, net of related debt.

**H. 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.

**I. 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.

**J. Economic Dependency**

The Academy receives the majority 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 2013, the Academy has implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*".

**CORNERSTONE ACADEMY  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 3 – Changes in Accounting Principles (Continued)**

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of Academy's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the Academy.

**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, 2013, the Academy's book balance was \$200,612, and the bank balances was \$207,785. 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, 2013, the Academy had intergovernmental receivables in the amount of \$4,268. The receivables are expected to be collected within one year.

Grant	Amount
Title III - ELA	\$4,213
Other	55
Total Intergovernmental Receivable	<u>\$4,268</u>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

**Note 6 - Capital Assets**

Capital asset activity for the period July 1, 2012 to June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
<b>Non Depreciable Capital Assets</b>				
Land	\$ -	\$ 1,018,700	\$ -	\$ 1,018,700
Total Non Depreciable Capital Assets	<u>-</u>	<u>1,018,700</u>	<u>-</u>	<u>1,018,700</u>
<b>Depreciable Capital Assets</b>				
Buildings and Improvements	-	7,185,192	-	7,185,192
Leasehold Improvements	34,783	-	-	34,783
Computer Technology	97,388	41,794	-	139,182
Furniture & Equipment	170,779	4,751	-	175,530
Total Depreciable Capital Assets	<u>302,950</u>	<u>7,231,737</u>	<u>-</u>	<u>7,534,687</u>
<b>Less: Accumulated Depreciation</b>				
Buildings and improvements	-	(273,463)	-	(273,463)
Leasehold Improvements	(11,594)	(2,319)	-	(13,913)
Computer Technology	(95,689)	(1,700)	-	(97,389)
Furniture & Equipments	(99,983)	(28,528)	-	(128,511)
Total Accumulated Depreciation	<u>(207,266)</u>	<u>(306,010)</u>	<u>-</u>	<u>(513,276)</u>
Depreciable Capital Assets, net of accumulated depreciation	<u>95,684</u>	<u>6,925,727</u>	<u>-</u>	<u>7,021,411</u>
<b>Capital Assets, Net</b>	<u><u>\$95,684</u></u>	<u><u>\$7,944,427</u></u>	<u><u>\$ -</u></u>	<u><u>\$8,040,111</u></u>

**CORNERSTONE ACADEMY  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 7 - Risk Management**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the Academy contracted with Brown & Brown of Marmora through The Hartford for property and general liability insurance.

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	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Buildings	6,950,000
Business Personal Property	607,800
Excess/Umbrella Liability:	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

**B. Workers' Compensation**

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

**C. Other Employee Benefits**

The Academy provides life insurance and accidental death and dismemberment, medical/surgical, dental and vision insurance to most employees through School Employees' Health and Welfare Benefits Plan and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 8 – Purchased Services**

For fiscal year ended June 30, 2013, purchased service expenses were for the following services:

<u>Purchased Services</u>	<u>June 30, 2013</u>
Personnel Services	\$1,824,850
Instructional and Administrative Services	495,068
Building Services	229,590
Food Services	133,730
Student Services	123,485
Sponsor Services	96,250
Professional Services	14,433
Advertising	11,350
	<u>\$2,928,756</u>

**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 Employee Retirement System**

Plan Description - The School District 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 School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2013, 13.1 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$33,980, \$31,680 and \$31,680, respectively; 100 percent for all fiscal years.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 9 - Defined Benefit Pension Plans (Continued)**

**B. State Teachers Retirement System**

Plan Description - The School District 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](http://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.

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2013, 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 School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$141,724, \$128,848 and \$114,573, respectively; 100 percent has been contributed for all fiscal years. Contributions to the DC and Combined Plans for fiscal year 2013 were made by the School.

**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. As of June 30, 2013, none of the members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

**CORNERSTONE ACADEMY  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 10 - Postemployment Benefits**

**A. School Employee 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 2013, .16 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 years ended June 30, 2013, 2012 and 2011 were \$415, \$1,374 and \$1,244, respectively; 100 percent has been contributed for all fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,979, \$1,874 and \$1,697, respectively; 100 percent has been contributed for all fiscal years.

**B. State Teachers Retirement System**

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](http://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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$10,902, \$9,604 and \$8,184, respectively; 100 percent has been contributed for all fiscal years.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**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, 2013.

**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. At the time this report was prepared, ODE had not released the results of their enrollment reviews so no adjustments have been recognized.

**Note 12 – Capital Lease-Lessee Disclosure**

The Academy entered into several lease agreements between fiscal years 2006 and 2011 for the purchase of technology (computers), furniture and equipment for an original cost of \$195,256. In addition, in fiscal year 2009, the Academy entered into a lease agreement for the purchase of security, cabling, paging and telephone systems for an original cost of \$72,914. The Academy's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases". The equipment has been capitalized in the amount of \$268,169, the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows for June 30, 2013:

<u>Year Ending June 30,</u>	<u>Technology</u>
2014	\$23,895
2015	3,765
Total future minimum lease payments	<u>27,660</u>
Less: amount representing interest	<u>(1,735)</u>
Present value of future minimum lease payments	<u><u>\$25,925</u></u>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

**Note 13 – Building Lease**

In September 2008, the Academy entered into a lease agreement with Mosaica Columbus LLC, an affiliated company of Mosaica Education, Inc. for the use of a school facility located at 6015 East Walnut Street, Westerville, OH. In July 2012, the Academy purchased the building from Mosaica Education, Inc. Pursuant to this transaction, the lease agreement between the Academy and Mosaica Education, Inc. was terminated. Rent expense incurred for the partial month of July 2012 was \$32,290. In addition, the Academy accrued \$182,021 of property taxes related to prior years.

Effective September 2011, the Ohio Legislature amended O.R.C. 5709.07 whereby public schoolhouses are exempt from property taxes. The exemption is effective for tax years after 2010. The Academy is in the process applying for exemption.

In accordance with the bond transaction (see Note 14), the Academy entered into a lease agreement with Columbus–Franklin County Finance Authority dated July 1, 2012. The purpose of this lease was to facilitate the bond financing. The rent payments pursuant to this lease will be applied to the debt service of the bonds. The lease is subject to annual renewal at the option of the Academy and has successive one year terms for a total of 30 years.

**Note 14 – Long-Term Obligations**

Changes in the Academy’s long-term obligations during fiscal year 2013 were as follows:

	Balance 6/30/2012	New Borrowings	Principal Payments	Balance 6/30/2013	Due Within One Year
Revenue Bonds - Series A	\$ -	\$ 9,520,000	\$ -	\$ 9,520,000	\$ -
Revenue Bonds - Series B	-	620,000	-	620,000	-
Subtract Unamortized Bond Discount	-	(187,639)	-	(187,639)	-
Mosaica Promissory Note	1,238,877	-	(82,592)	1,156,285	82,592
Capital Leases Payable	54,567	-	(28,642)	25,925	22,282
Long-term Obligations	<u>\$ 1,293,444</u>	<u>\$ 9,952,361</u>	<u>\$ (111,234)</u>	<u>\$ 11,134,571</u>	<u>\$ 104,874</u>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 14 – Long-Term Obligations (continued)**

In July 2012, the Academy issued Revenue Bonds totaling \$10,140,000, with an underwriters discount of \$228,150 and an original issue discount of \$187,639, with the Columbus-Franklin County Finance Authority. Under the terms of the bond agreement the Authority acquired the property at that time. The properties are leased back to the Academy through annual lease renewals through July 2042. The outstanding principal balance as of June 30, 2013 is \$10,140,000 and interest payable due July 1, 2013 of \$404,600. The bonds were issued in two Series as follows:

Series A: Tax exempt redeemable lease revenue bonds totaling \$9,520,000. The Series A bears interest at 8.5%. Annual payments are interest only through fiscal 2021. Thereafter, semi-annual principal payments are required until maturity in July 2042.

Series B: Taxable redeemable lease revenue bonds totaling \$620,000. The Series B bears interest at 10.0%. Annual payments are interest only through fiscal 2017. Thereafter, semi-annual principal payments are required until maturity in July 2022.

The Academy's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", and have been recorded in the financial statements. Land, Building, and Building Improvements are being depreciated over the useful life. Improvements were completed during the fiscal year. Issuance Costs totaling \$711,963 were paid as part of the bond issuance.

Both the Series A and Series B require the Academy to comply with certain financial covenants including the requirement to maintain a certain amount of operating cash on hand, debt coverage ratio, and building headcount as of testing dates. As of June 30, 2013, the Academy is in compliance with those covenants. The bonds are secured by the facility and a guaranty by Mosaica Education, Inc. until July 5, 2017, a related party (see Note 16), and required the forgiveness of accounts payable, related party, for amounts owed Mosaica Education, Inc. for back rent. In addition, the Academy entered into a state school aid direction whereby the Academy directs the Ohio Department of Education to deposit the gross revenues into an account held by the bond Trustee, and shall be paid out in order of priority, a) transferred to debt service account and or redemption account to satisfy overdue and unpaid obligations, b) scheduled bond payments, c) replenish debt service fund, d) pay additional rent or make further payments, e) deposit to repair and replacement account to the extent available \$2,500 per month not to exceed \$27,500 per year, until the reserve balance is \$275,000.

As part of the agreement for the leases, monies were deposited into several escrow accounts with US Bank, N.A. Payments for construction and financing activities have been paid from these accounts. Lease payments were made by the Academy to cover Bond interest and administrative fees due in January and July 2013 and to make deposits in reserve accounts. Funds were deposited from the initial bond proceeds into an operating reserve and a reserve fund for future operating and debt service needs. A supplemental reserve, to be used for future debt service is funded by payments of the base lease payment for the full bond term. The balances of the escrow and reserve accounts as of June 30, 2013 were \$525,638 and \$836,125. The assets acquired through the capital lease as of June 30, 2013 were Land of \$1,018,700 and Buildings and Improvements of \$7,185,192. Accumulated depreciation totaled \$273,463 for the buildings and improvements.

In 2010, the Academy executed a \$1,238,877 promissory note payable to Mosaica Education, Inc., a related party (see note 16), to finance outstanding invoices for services and/or reimbursable expenses over a multi-year term at a fixed interest rate of 7.0%. This note was cancelled and reissued with a date of June 30, 2012. The interest rate remained the same. Quarterly installments were due beginning

**CORNERSTONE ACADEMY  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

**Note 14 – Long-Term Obligations (continued)**

September 15, 2012 and continue through maturity on June 30, 2027. Principal payments in the amount of \$82,592 and interest in the amount of \$68,406 were paid during the fiscal year.

The balance of the bond escrow and reserve accounts as of June 30, 2013 are as follows:

Reserve Fund	\$ 836,125
Total Reserve Fund	<u>\$ 836,125</u>
Repair & Replacement Fund	\$ 25,001
Bond Interest Fund	444,012
Expense Fund	17,442
Project Fund	39,183
Total Escrow Accounts	<u>\$ 525,638</u>

The following is a schedule of remaining debt service on these obligations:

	Bonds Series A & B		Promissory Note		Total Debt Service
	Principal	Interest	Principal	Interest	
2014	\$ -	\$ 871,200	\$ 82,592	\$ 78,772	\$ 1,032,564
2015	-	871,200	82,592	72,990	1,026,782
2016	-	871,200	82,592	67,209	1,021,001
2017	-	871,200	82,592	61,428	1,015,219
2018	-	993,300	82,592	55,646	1,131,538
2019-2023	745,000	5,388,075	412,959	191,510	6,737,543
2024-2028	1,155,000	4,870,525	330,367	49,142	6,405,034
2029-2033	1,730,000	4,088,150	-	-	5,818,150
2034-2038	2,600,000	2,912,250	-	-	5,512,250
2039-2043	3,910,000	1,145,650	-	-	5,055,650
<b>Total</b>	<u>\$ 10,140,000</u>	<u>\$ 22,882,750</u>	<u>\$ 1,156,285</u>	<u>\$ 576,697</u>	<u>\$ 34,755,732</u>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 15 – Tax Exempt Status**

The Academy is tax-exempt status under 501(c) 3 of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

**Note 16 – Related Party Transactions/Management Company**

The Academy contracts with Mosaica Education, Inc. for a variety of services including management of personnel and human resources, board relations, financial management, marketing, 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 and budget preparation and accounts payable and payroll preparation. In addition, Mosaica Education, Inc. is the guarantor of the Academy's \$10,140,000 bond issuance.

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for the period ending June 30, 2013 was \$471,345.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs 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 administrative services.

At June 30, 2013, the Academy had payables to Mosaica Education in the amount of \$739,460. The following is a schedule of payables owed to Mosaica Education, Inc.:

	<u>June 30, 2013</u>
Payroll	\$241,215
Real Estate Taxes	385,932
Management Fee	59,926
Interest/Finance Charges	42,303
Expense Reimbursements	<u>10,084</u>
Total at June 30, 2013	<u><u>\$739,460</u></u>

Some Board members for the Academy are also Board members for another Academy managed by Mosaica Education.

**Note 17 – Sponsor**

The Academy was approved for operation under a contract renewal with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 1, 2011. As part of this contract, the Sponsor is entitled to a maximum of 3% of the foundation funds received by the Academy from the state. Total amount due and paid for year ended June 30, 2013 was \$96,250.

**CORNERSTONE ACADEMY  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 18– Management’s Plan**

At June 30, 2013, the Academy had a deficit net position of \$2,899,753. As further discussed in Note 14, a significant portion of that net position deficit is being funded by the notes and accounts payable of \$1,156,285 and \$739,460, respectively, to Mosaica Education.

The Academy, with the assistance from its management company, was able to finance the acquisition of its facility in July 2012. In addition, the Academy plans to expand the facility by building a 14,000 square foot addition. Once completed, the facility will accommodate approximately 750 students. Fiscal year 2013 finished the year with 498 students. Enrollment as of November 2013 approximates 550 students. Management believes that the Academy is in a strong position to grow enrollment to or near capacity in the near future as a result of having a facility designed for educating children, strong community reputation for academic achievement and active advertising via print, radio, mailings and parent referrals. In addition, recent changes in property tax legislation has removed the obligation of future real estate tax assessments by Franklin County payable by the Academy under its facility lease. This change is expected to result in annual savings in excess of \$100,000 for the Academy. The enrollment trends towards growth combined with the elimination of future real estate assessment is expected to allow the Academy to begin to generate annual surpluses that will, over time, allow a recovery from the existing cumulative deficits.

December 20, 2013

To the Board of Trustees  
Cornerstone Academy  
Franklin County, Ohio  
6025 East Walnut Street  
Westerville, Ohio 43081

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Cornerstone Academy, Franklin County, Ohio (the "Academy") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 20, 2013, wherein we noted the Academy had a deficit net position balance and an operating loss as of June 30, 2013 and for the year ended, and is experiencing financial difficulties.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Cornerstone Academy  
Independent Auditors Report on Internal Control Over  
Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

Medina, Ohio

December 20, 2013

To the Board of Trustees  
Cornerstone Academy  
Franklin County, Ohio  
6025 East Walnut Street  
Westerville, Ohio 43081

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**Report on Compliance for Each Major Federal Program**

We have audited the Cornerstone Academy's, Franklin County, Ohio (the "Academy") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2013. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each of the major federal programs. However, our audit does not provide a legal determination of the Academy's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Report on Internal Control Over Compliance**

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Hea & Associates, Inc.*

Medina, Ohio

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA #	Grant Year	Revenues	Expenses
<b>U. S. Department of Education</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2013	\$ 214,596	\$ 214,596
Special Education IDEA Part B	84.027	2013	119,615	119,615
Title III English Language Acquisition Grants	84.365	2013	52,454	52,454
Title II-A Improving Teacher Quality	84.367	2013	4,372	4,372
ARRA - Race to the Top	84.395	2013	17,384	11,147
<i>Total U.S. Department of Education</i>			<u>408,421</u>	<u>402,184</u>
<b>U. S. Department of Agriculture</b>				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Cash Assistance:</i>				
School Breakfast Program	10.553	2012	33,049	33,049
National School Lunch Program (B)	10.555	2012	104,955	104,955
<i>Total Child Nutrition Cluster</i>			<u>138,004</u>	<u>138,004</u>
<i>Total U.S. Department of Agriculture</i>			<u>138,004</u>	<u>138,004</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 546,425</u>	<u>\$ 540,188</u>

The accompanying notes are an integral part of this schedule.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School's federal awards programs. This schedule has been prepared using the full accrual 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 School generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During fiscal year 2013, the ODE authorized the following transfers:

<u>CFDA Number / Grant Title</u>	<u>Grant Year</u>	<u>Transfer In</u>	<u>Transfer Out</u>
84.010 Title I	2013	\$ 49,995	
84.010 Title I	2012		\$ 49,995
84.367 Title II-A Improving Teacher Quality	2013	779	
84.367 Title II-A Improving Teacher Quality	2012		779
84.365 Title III English Language Acquisition Grants	2013	30,247	
84.365 Title III English Language Acquisition Grants	2012		30,247
		<u>\$ 81,021</u>	<u>\$ 81,021</u>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , SECTION .505  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(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 non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Title I	CFDA# 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None were noted.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None were noted.

December 20, 2013

Board of Trustees  
Cornerstone Academy  
Franklin County, Ohio  
6025 East Walnut Street  
Westerville, Ohio 43081

### **Independent Accountant's Report on Applying Agreed-Upon Procedures**

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Cornerstone Academy, Franklin County, Ohio (the Academy) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on April 26, 2012, to include prohibiting harassment, intimidation, or bullying of any student “on a school bus” or by an “electronic act.”

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

*Rea & Associates, Inc.*

Medina, Ohio

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# Dave Yost • Auditor of State

**CORNERSTONE ACADEMY**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 20, 2014**