

Cornerstone Academy  
Franklin County, Ohio

*Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2014





# 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, 2013 through June 30, 2014. 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

June 8, 2015

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**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

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March 25, 2015

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 Cornerstone Academy, Franklin County, Ohio (the "Academy") as of and for the year ended June 30, 2014, 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 financial position of the Academy, as of June 30, 2014, and the changes in financial position and cash flows 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 16 to the financial statements, the Academy's deficit net position (\$3,173,278) and change in net position (\$273,525) raise substantial doubt about its ability to continue as a going concern. Note 16 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 3-7 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015, 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.

*Hea & Associates, Inc.*

Medina, Ohio

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED*

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The discussion and analysis of the Cornerstone Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2014. 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 sixth year of operations since emerging from a temporary voluntary suspension of operations during fiscal year 2007 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 2014 but ended with 539 students.

Key highlights for fiscal year 2014 are as follows:

- Net position decreased \$273,525 as compared to a decrease of \$1,002,766 in fiscal year 2013.
- Enrollment increased from 492 in fiscal year 2013 to 539 in fiscal year 2014.
- Total revenue increased from \$4,195,619 in fiscal year 2013 to \$4,411,492 in fiscal year 2014.
- Operating expenses (excluding interest expense and bond issuance costs) increased from \$3,619,427 in fiscal year 2013 to \$3,708,741 in fiscal year 2014.

**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 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, 2014  
UNAUDITED  
(Continued)*

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

Table 1  
Net Position

	June 30, 2014	June 30, 2013	Change
<u>Assets:</u>			
Current Assets	\$1,152,491	\$745,318	\$407,173
Noncurrent Assets	8,591,086	8,876,236	(285,150)
Total Assets	<u>9,743,577</u>	<u>9,621,554</u>	<u>122,023</u>
<u>Liabilities:</u>			
Current Liabilities	1,973,394	1,491,609	481,785
Noncurrent Liabilities	10,943,461	11,029,697	(86,236)
Total Liabilities	<u>12,916,855</u>	<u>12,521,306</u>	<u>395,549</u>
<u>Net Position:</u>			
Net Invested in Capital Assets	(1,205,630)	(942,939)	(262,691)
Restricted for Other Purposes	362,820	372,763	(9,943)
Unrestricted	(2,330,468)	(2,329,577)	(891)
Total Net Position	<u>(\$3,173,278)</u>	<u>(\$2,899,753)</u>	<u>(\$273,525)</u>

Results of fiscal year 2014 indicate an ending net deficit position of \$3,173,278, an increase of negative net position of \$273,525 from fiscal year end 2013. The fiscal year 2014 deficit is the result of operating and non-operating expenses increasing at a higher rate than total revenues during the year.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
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, 2014	Year ended June 30, 2013	Change
<u>Operating Revenues:</u>			
State Aid	\$3,802,209	\$3,213,954	\$588,255
Charges for Services	76,925	144,529	(67,604)
Forgiveness of Debt	0	247,122	(247,122)
Miscellaneous	770	33,209	(32,439)
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	531,588	556,805	(25,217)
<b>Total Revenues</b>	<b>4,411,492</b>	<b>4,195,619</b>	<b>215,873</b>
<u>Operating Expenses:</u>			
Purchased Services	3,262,802	3,143,067	119,735
Depreciation	319,251	306,010	13,241
General Supplies	91,250	118,705	(27,455)
Other Operating Expense	35,438	51,645	(16,207)
<u>Non-Operating Expenses:</u>			
Bond Issuance Costs	23,951	711,963	(688,012)
Interest	952,325	866,995	85,330
<b>Total Expenses</b>	<b>4,685,017</b>	<b>5,198,385</b>	<b>(513,368)</b>
<b>Change in Net Position</b>	<b>(\$273,525)</b>	<b>(\$1,002,766)</b>	<b>729,241</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.

Total expenses have decreased \$513,368 in fiscal year 2014 as compared to fiscal year 2013. A substantial portion of the decreased 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. Moreover, the Academy's enrollment has increased to 539 students. The student increase is expected to help the Academy achieve operating surplus in fiscal year 2015.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
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, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2014, the Academy had \$7,754,961 (net of accumulated depreciation) invested in capital assets. The following table summarizes Capital Asset activity for the fiscal year ended June 30, 2014:

	June 30, 2014	June 30, 2013	Increase (Decrease)
Land	\$ 1,018,700	\$ 1,018,700	\$ -
Building and improvements	7,185,192	7,185,192	-
Leasehold improvements	34,783	34,783	-
Furniture and equipment	209,631	175,530	34,101
Computer technology	139,182	139,182	-
Total asset cost	8,587,488	8,553,387	34,101
Accumulated depreciation	(832,527)	(513,276)	(319,251)
Net capital assets	\$ 7,754,961	\$ 8,040,111	\$ (285,150)

For further information regarding the Academy's capital assets, refer to Note 5 of the basic financial statements.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED  
(Continued)*

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Debt

At June 30, 2014, the Academy had total debt of \$11,029,521. Included in this amount is: (i) the \$10,140,000 bond offering (listed net of discount) of which no principal payments due within one year, (ii) \$3,467 of capital lease obligations for technology and furniture and fixtures due in one year, and (iii) \$1,073,693 related to a \$1,238,877 promissory note executed in 2012 payable to Mosaica Education, Inc., a related party (see note 14), 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 \$82,593 is due within one year. The following table summarizes the Academy's debt activity for the fiscal year ended June 30, 2014:

	<u>Balance at June 30, 2013</u>	<u>New Borrowings</u>	<u>Principal Payments</u>	<u>Balance at June 30, 2014</u>
Revenue Bonds, net of discount	\$ 9,952,361	\$ -	\$ -	\$ 9,952,361
Capital leases payable	25,925	-	22,458	3,467
Promissory note payable	<u>1,156,285</u>	-	<u>82,592</u>	<u>1,073,693</u>
Total debt payable	<u>\$ 11,134,571</u>	<u>\$ -</u>	<u>\$ 105,050</u>	<u>\$ 11,029,521</u>

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

**Economic Factors**

The Academy is experiencing financial difficulty; see Note 16 to the basic financial statements for further information.

**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, 2014**

**Assets:**

***Current assets:***

Cash and Cash Equivalents	\$549,799
Escrow Accounts	521,931
Intergovernmental Receivable	65,284
Prepaid Expense	15,477
<b>Total current assets</b>	<b><u>1,152,491</u></b>

***Noncurrent assets:***

Bond Reserve Accounts	836,125
Net Depreciable Capital Assets	1,018,700
Capital Assets, net of Accumulated Depreciation	6,736,261
<b>Total noncurrent assets</b>	<b><u>8,591,086</u></b>
<b>Total assets</b>	<b><u>9,743,577</u></b>

**Liabilities:**

***Current liabilities:***

Accounts Payable, Trade	254,093
Accounts Payable, Related Party	978,641
Accrued Interest Payable	404,600
Loans from Schools	250,000
Current Portion of Long-term Debt	86,060
<b>Total current liabilities</b>	<b><u>1,973,394</u></b>

***Noncurrent liabilities:***

Noncurrent Portion of Long-term Debt	10,943,461
<b>Total noncurrent liabilities</b>	<b><u>10,943,461</u></b>
<b>Total liabilities</b>	<b><u>12,916,855</u></b>

**Net Position**

Net Invested in Capital Assets	(1,205,630)
Restricted for Other Purposes	362,820
Unrestricted	(2,330,468)
<b>Total Net Position</b>	<b><u>(\$3,173,278)</u></b>

**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, 2014**

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<b>Operating Revenues:</b>	
State Aid	\$3,802,209
Charge for Services	76,925
Miscellaneous	770
<b>Total Operating Revenues</b>	<u><u>3,879,904</u></u>
<b>Operating Expenses:</b>	
Purchased Services	3,262,802
Depreciation	319,251
General Supplies	91,250
Other Operating Expenses	35,438
<b>Total Operating Expenses</b>	<u><u>3,708,741</u></u>
<b>Operating Income</b>	<u><u>171,163</u></u>
<b>Nonoperating Revenues and (Expenses):</b>	
Federal and State Restricted Grants	531,588
Interest Expense and Bond Issuance Costs	(976,276)
<b>Net Nonoperating Revenues and (Expenses)</b>	<u><u>(444,688)</u></u>
<b>Change in Net Position</b>	(273,525)
<b>Net Position Beginning of Year</b>	<u><u>(2,899,753)</u></u>
<b>Net Position End of Year</b>	<u><u>(\$3,173,278)</u></u>

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

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

State Aid Receipts	\$3,802,209
Charge for Services	76,925
Other Operating Receipts	770
Cash Payments to Suppliers for Goods and Services	(3,139,570)
Net Cash Provided by Operating Activities	<u>740,334</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Short-term Financing Payments	(24,865)
Loans from Schools	250,000
Note Payable Interest Payments	(78,772)
Note Payable Principle Retirement	(82,592)
Federal and State Grant Receipts	470,572
Net Cash Provided by Noncapital Financing Activities	<u>534,343</u>

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

Purchase of Assets	(34,101)
Facility Bond Interest Payments	(871,200)
Increase in Escrow Reserve Accounts	3,707
Capital Lease Interest Payments	(1,438)
Capital Lease Principal Retirement	(22,458)
Net Cash Used for Capital and Related Financing Activities	<u>(925,490)</u>

Net Increase in Cash and Cash Equivalents	349,187
Cash and Cash Equivalents - Beginning of the Year	200,612
Cash and Cash Equivalents - Ending of the Year	<u>\$549,799</u>

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

Operating Income	<u>\$171,163</u>
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**Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities**

Depreciation	319,251
Changes in assets and liabilities:	
Decrease in Accounts Receivable	5,256
Increase in Prepaid Expense	(5,934)
Increase in Accounts Payable, Trade	11,417
Increase in Accounts Payable, Related Party	239,181
<b>Net Cash Provided By Operating Activities</b>	<u>\$740,334</u>

**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, 2014**

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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 is a federally recognized 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702.

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, 2016. 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 14.

**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, 2014  
(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 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, 2014.

**F. Capital Assets**

The Academy's capital assets during the year ended June 30, 2014 consisted of land, building and improvements, leasehold improvements, computers technology, 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, 2014  
(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>
Buildings and Improvements	30 years
Leasehold Improvements	15 years
Computers Technology	5 years
Furniture and Equipments	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, 2014, the Academy reported \$362,820 in restricted net position for cash in escrow and reserve accounts, net of related debt for future principal payments and (\$1,205,630) of net position invested in capital assets, net of accumulated depreciation and 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.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 3 - Deposits**

At June 30, 2014, the Academy's book balance was \$549,799, and the bank balances was \$572,589. \$250,000 of the bank balance was covered by federal depository insurance, while \$322,589 was exposed to custodial credit risk. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

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. All bank deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral as permitted by the Ohio Revised Code, is held in single financial collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

**Note 4 – Receivables**

At June 30, 2014, the Academy had intergovernmental receivables in the amount of \$65,284. The receivables are expected to be collected within one year.

Grant	Amount
Title I	\$43,963
Other	21321
Total Intergovernmental Receivable	\$65,284

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**Note 5 - Capital Assets**

Capital asset activity for the period July 1, 2013 to June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<b>Non Depreciable Capital Assets</b>				
Land	\$ 1,018,700	\$ -	\$ -	\$ 1,018,700
Total Non Depreciable Capital Assets	<u>1,018,700</u>	<u>-</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	139,182	-	-	139,182
Furniture & Equipment	175,530	34,101	-	209,631
Total Depreciable Capital Assets	<u>7,534,687</u>	<u>34,101</u>	<u>-</u>	<u>7,568,788</u>
<b>Less: Accumulated Depreciation</b>				
Buildings and improvements	(273,463)	(273,463)	-	(546,926)
Leasehold Improvements	(13,913)	(2,319)	-	(16,232)
Computer Technology	(97,389)	(8,359)	-	(105,748)
Furniture & Equipments	(128,511)	(35,110)	-	(163,621)
Total Accumulated Depreciation	<u>(513,276)</u>	<u>(319,251)</u>	<u>-</u>	<u>(832,527)</u>
Total Depreciable Capital Assets, net of accumulated depreciation	<u>7,021,411</u>	<u>(285,150)</u>	<u>-</u>	<u>6,736,261</u>
<b>Capital Assets, Net</b>	<u><u>\$8,040,111</u></u>	<u><u>(\$285,150)</u></u>	<u><u>\$ -</u></u>	<u><u>\$7,754,961</u></u>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 6 - 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 2014, 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 the prior three years 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, 2014  
(Continued)**

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**Note 7 – Purchased Services**

For fiscal year ended June 30, 2014, purchased service expenses were for the following services:

<u>Purchased Services</u>	<u>June 30, 2014</u>
Personnel Services	\$1,534,177
Instructional and Administrative Services	512,179
Building Services	238,586
Food Services	124,842
Sponsor Services	111,763
Professional Services	729,707
Other	11,548
	<u>\$3,262,802</u>

**Note 8 - 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 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 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 2014, 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, 2014, 2013 and 2012 were \$23,427, \$33,980 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, 2014  
(Continued)**

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**Note 8 - Defined Benefit Pension Plans (Continued)**

**B. State Teachers Retirement System**

Plan Description - The Academy 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).

**Plan Options**

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, 2014, plan members were required to contribute 11 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 2014, 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 11 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, 2014, 2013 and 2012 were \$181,561, \$141,724 and \$128,848, respectively; 100 percent has been contributed for all fiscal years. Contributions to the DC and Combined Plans for fiscal year 2014 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, 2014, none of the members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 9 - Postemployment Benefits**

**A. School Employee 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.

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 2014, .14 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 healthcare for the fiscal year ended June 30, 2014, 2013, 2012 were \$234, \$415, \$1,374 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 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,272, \$1,979 and \$1,874 respectively; 100 percent has been contributed for all fiscal years.

**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](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 2014, 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, 2014, 2013 and 2012 were \$12,969, \$10,902 and \$9,604, 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, 2014  
(Continued)**

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**Note 10 - 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, 2014.

**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. No provision for any adjustment to the fiscal 2014 foundation revenues has been made because they were immaterial, and will be included in the financial activity for fiscal year 2015.

**Note 11 – Capital Lease-Lessee Disclosure**

The Academy entered into several lease agreements between fiscal years 2006 and 2012 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 the Standards. 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. Principal payments during 2014 totaled \$22,458 while interest totaled \$1,438. 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, 2014:

<u>Year Ending June 30.</u>	<u>Technology</u>
2015	\$ 3,765
Total future minimum lease payments	<u>3,765</u>
Less: amount representing interest	<u>(298)</u>
Present value of future minimum lease payments	<u><u>\$ 3,467</u></u>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**Note 12 – 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.

In accordance with the bond transaction (see Note 13), 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 13 – Long-Term Obligations**

Changes in the Academy’s long-term obligations during fiscal year 2014 were as follows:

	Balance 6/30/2013	New Borrowings	Principal Payments	Balance 6/30/2014	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	1,156,285	-	(82,592)	1,073,693	82,593
Capital Leases Payable	25,925	-	(22,458)	3,467	3,467
	<u>11,134,571</u>	<u>\$ -</u>	<u>\$ (105,050)</u>	<u>\$ 11,029,521</u>	<u>\$ 86,060</u>
Long-term Obligations	<u>\$11,134,571</u>	<u>\$ -</u>	<u>\$ (105,050)</u>	<u>\$ 11,029,521</u>	<u>\$ 86,060</u>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 13 – 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, 2014 is \$10,140,000 and interest payable due July 1, 2014 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 2018. 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 the Standards, 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.

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, financial statement filing deadline, and building headcount as of testing dates. As of June 30, 2014, the Academy is in compliance with those covenants, except for the financial statement deadline. The Academy did not file the audited financial statements within 150 days. The bonds are secured by the facility and a guaranty by Mosaica Education, Inc. until July 5, 2017, a related party (see Note 14), 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 2014 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, 2014 were \$521,931 and \$836,125, respectively. The assets acquired through the capital lease as of June 30, 2014 were Land of \$1,018,700 and Buildings and Improvements of \$7,185,192. Interest in the amount of \$871,200 was paid during fiscal year 2014 on the bonds.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**Note 13 – Long-Term Obligations (continued)**

In 2010, the Academy executed a \$1,238,877 promissory note payable to Mosaica Education, Inc., a related party (see note 14), 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 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 \$78,772 were paid during the fiscal year.

The balances of the bond escrow and reserve accounts as of June 30, 2014 are as follows:

Reserve Fund	\$ 836,125
Total Reserve Fund	\$ 836,125
Repair & Replacement Fund	\$ 51,254
Bond Interest Fund	435,673
Project Fund	35,004
Total Escrow Accounts	\$ 521,931

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	
2015	\$ -	\$ 871,200	\$ 82,593	\$ 72,990	\$ 1,026,783
2016	-	871,200	82,592	67,209	1,021,001
2017	-	871,200	82,592	61,428	1,015,219
2018	-	871,200	82,592	55,646	1,009,438
2019	120,000	1,115,400	82,592	49,865	1,367,857
2020-2024	820,000	5,302,000	412,959	162,603	6,697,561
2025-2029	1,250,000	4,301,000	247,774	28,183	5,826,958
2030-2034	1,880,000	3,993,000	-	-	5,873,000
2035-2039	2,820,000	2,769,250	-	-	5,589,250
2040-2043	3,250,000	930,600	-	-	4,180,600
<b>Total</b>	<b>\$ 10,140,000</b>	<b>\$ 21,896,050</b>	<b>\$ 1,073,693</b>	<b>\$ 497,924</b>	<b>\$ 33,607,667</b>

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 14 – 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, 2014 was \$523,927.

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, billed during the fiscal year was \$2,609,562.

At June 30, 2014, the Academy had payables to Mosaica Education in the amount of \$978,641. The following is a schedule of payables owed to Mosaica Education, Inc.:

	<u>June 30, 2014</u>
Payroll	\$310,046
Real Estate Taxes	385,932
Advances	220,000
Management Fee	45,280
Expense Reimbursements	<u>17,383</u>
Total at June 30, 2014	<u><u>\$978,641</u></u>

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

**Note 15 – 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, 2014 was \$111,763.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 16– Management’s Plan**

At June 30, 2014, the Academy had a deficit net position of \$3,173,278. As further discussed in Note 13, a significant portion of that net position deficit is being funded by the notes and accounts payable of \$1,073,693 and \$978,641, 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 2014 finished the year with 539 students. Enrollment as of March 2015 approximates 597 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 have 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 toward 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.

**Note 17– Loans from School**

At June 30, 2014, the Academy had \$250,000 outstanding in a loan received from Columbus Humanities, Arts, and Technology Academy. The balance of \$250,000 is due within one year.

**Note 18– Subsequent Event**

As of December 31, 2014, the Academy is required to meet certain financial covenants with the Revenues Bonds issued from the Columbus-Franklin County Finance Authority, including the requirement to maintain a certain amount of operating cash on hand (45 days) and debt coverage ratio (115%). As of December 31, 2014 the Academy was not in compliance with those financial covenants.

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March 25, 2015

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 Cornerstone Academy, Franklin County, Ohio (the "Academy") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated March 25, 2015, wherein we noted the Academy had a deficit net position and a reduction in net position as of June 30, 2014 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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2014-002 and 2014-003 that we consider to be significant deficiencies.

### **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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2014-001.

### **The Academy's Response to Findings**

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings. The Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
JUNE 30, 2014**

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

**FINDING #2014-001**

**Material Non-Compliance – Records Retention**

**Criteria:** Ohio Rev. Code section 149.41 authorizes the Academy to develop its own records commission and rules. The Board of Trustees has adopted a data and records retention policy which states, in part, all records are the property of the Academy and are not removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the Board of Trustees. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

**Condition:** During the performance of audit procedures, we noted various checks in which the corresponding invoice was not maintained or could not be produced. The successor treasurer was able to contact all applicable vendors to produce a valid invoice to support the expense.

**Cause:** Due to turnover in the Academy's treasurer position documents were not properly maintained and could not be located.

**Potential Effect:** Failure to maintain approved invoices can lead to non-compliance and improper financial reporting.

**Recommendation:** We recommend the Academy maintain all records in accordance with the ORC and Board of Trustee policies.

**Management Response:** All disbursements are now matched to a corresponding invoice and scanned into a cloud storage platform to ensure all records are maintained in accordance with board policy.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS(Continued)  
JUNE 30, 2014**

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)**

**FINDING #2014-002**

**Significant Deficiency – Bank Reconciliation**

**Criteria:** A necessary step in the internal control over financial reporting is to reconcile the cash balance of the bank to the cash balance in the accounting records in a timely manner.

**Condition:** Bank reconciliations were not timely completed, delaying management the ability to finalize year end records and the ability to provide timely reports to the Board of Trustees to ensure accurate and timely management and oversight of the Academy's functions. In addition, this caused in delays in the completion of audit procedures resulting in numerous extension requests.

**Cause:** Due to the small size of the finance department, as well as the various turnover in the treasurer's position throughout the year, timely reconciliations were not performed throughout the year. Upon the appointment of the current treasurer in September 2014, all bank reconciliations have been performed timely.

**Potential Effect:** Without complete and timely reconciliation of the bank statements to the accounting system, the Academy's internal control is weakened, which could hinder the detection of errors or irregularities by the Academy's management in a timely manner.

**Recommendation:** We recommend the Academy take all steps necessary to reconcile the cash balance of the bank to the cash balance in the accounting records each month.

**Management Response:** Bank Accounts are now reconciled in a timely manner every month. The School Fiscal Officer reviews and signs off when completed.

**CORNERSTONE ACADEMY  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS(Continued)  
JUNE 30, 2014**

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)**

**FINDING #2014-003**

**Significant Deficiency – Loans from Affiliate Academy**

**Criteria:** In June, 2014 the Academy received a loan from an affiliate Academy, Columbus Humanities, Arts and Technology Academy, in the sum of \$250,000, with only Board approval.

**Condition:** The Boards between the two Academies did not execute a formal agreement describing the terms of the loan.

**Cause:** The action was taken at year end without proper time to draft a formal agreement for the short term cash advance.

**Potential Effect:** Failure to execute a formal agreement could potentially result in differing expectation to the terms and conditions of the advance, including installment amounts, length of loan, and interest rate to apply for proper financial reporting.

**Recommendation:** We recommend the Academy execute a formal loan agreement to include the repayment term and interest rate with Columbus Humanities, Arts and Technology Academy to ensure accurate repayment and to assist with future budgeting of the Academy's cash flows.

**Management Response:** The Schools will work together to develop a formal repayment structure for the loan.

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# Dave Yost • Auditor of State

**CORNERSTONE ACADEMY**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 18, 2015**