CAPITOL CITY ACADEMY
FRANKIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

CAPITOL CITY ACADEMY
FRANKLIN COUNTY

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Mary Taylor, CPA
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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Capitol City Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Capitol City Academy, Franklin County, Ohio, as of June 30, 2007, and the changes in its financial position and its cash flows the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Academy is experiencing certain financial difficulties. Those difficulties and Management's Plan are discussed in Note 13.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 22, 2008

The discussion and analysis of Capitol City Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- Total net assets at year end were $125,083 compared with $27,471 of total net assets reported for the prior year.
- The total assets of the Academy increased by $103,415 over 2006 primarily due to the additions of capital assets and accounts receivable recognized during the year.
- The $5,803 increase in total liabilities is related to the Academy owing $75,000 on a line of credit at year end compared with $50,000 the year before. Reductions in other liabilities such as accrued wages and intergovernmental payable helped limit the increase of the liabilities of the Academy.
- In fiscal year 2007, total revenues decreased $351,685 and expenses decreased $429,322 over those reported for the prior year. The majority of the decrease in revenues is associated with the Academy receiving additional grant revenue in the prior year which it did not receive during the current year as well as revenues collected from other charter school in the prior year begin significantly less for the current fiscal year.

Using this Financial Report

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

Statement of Net Assets

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

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

Table 1 provides a summary of the Academy's net assets for fiscal years 2007 and 2006.

TABLE 1
NET ASSETS

	2007	2006
Assets:		
Current and other assets	$ 151,052	$ 82,956
Capital assets, net	182,757	147,438
Total Assets	333,809	230,394
Liabilities:		
Current liabilities	208,726	202,923
Total Liabilities	208,726	202,923
Net Assets:		
Invested in capital assets	182,757	147,438
Restricted	-	62,545
Unrestricted	(57,674)	(182,512)
Total Net Assets	$ 125,083	$ 27,471

At June 30, 2007 the Academy reported net assets of $125,083; including $182,757 of net assets invested in capital assets net of related debt and an unrestricted net deficit of $57,674. The unrestricted deficit reported at year-end was 68.4 percent less than the $182,512 unrestricted deficit reported at June 30, 2006. The unrestricted deficit originated due to the start-up costs incurred in prior years and the Academy has been able to reduce that deficit dramatically in the last two fiscal years. During the year the Academy spent $142,882 on capital assets during the year, including numerous pieces of computer equipment and various fixtures for use in the classrooms. In addition, the Academy agreed to the sale of certain capital assets to another entity. As payment had not been made as of June 30, 2007, the sale amount of $60,000 was recorded as an accounts receivable.

At June 30, 2007, the Academy reported a liability of $75,000 for amount outstanding on a line of credit with a local bank compared with $50,000 owed on this line of credit at the end of the prior year.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2007 and 2006, as well as revenues and expenses.

TABLE 2
CHANGE IN NET ASSETS

	2007	2006
Operating Revenues:		
Foundation payments	$ 874,359	$ 959,687
Charges for services	1,505	190,976
Other operating revenues	113	4,302
Non Operating Revenues:		
State and federal grants	351,448	498,952
Local grants	12,625	-
Other nonoperating revenues	62,182	-
Total Revenues	1,302,232	1,653,917
Operating Expenses:		
Salaries	547,022	700,680
Fringe Benefits	69,705	132,711
Building rental	194,391	181,286
Other purchased services	219,327	307,452
Materials and supplies	60,421	236,184
Other expenses	35,812	13,316
Depreciation	73,155	58,967
Non Operating Expenses:		
Interest and fiscal charges	4,787	3,346
Total Expenses	1,204,620	1,633,942
Change in net assets	97,612	19,975
Net assets, beginning of year	27,471	7,496
Net Assets, end of year	$ 125,083	$ 27,471

During fiscal year 2007, net assets of the Academy increased by $97,612 despite total revenues decreasing by 21.3 percent from fiscal year 2006 levels. Management made some operational adjustments during fiscal year 2007 after reviewing the results of the prior fiscal year, the first full year the school was in operation. As a result of these adjustments, salaries and benefits expense reported for the year were $216,664 less than those reported in the prior year, a 26 percent decrease. In addition to conservative spending on behalf of management, certain expenses which were funded through a charter school start-up grant received in the prior year were one-time expenses limited to the prior school year. These one-time expenses account for the majority of the decrease reported for purchased services and material and supplies. In total, expenses reported for fiscal year 2007 were $429,322 (26.3 percent) lower than the total expenses reported for fiscal year 2006.

Operating revenue decreased from fiscal year 2006 levels due to fewer students attending the Academy during fiscal year 2007. As State Foundation Payments are based on student enrollment, any increase or decrease in student counts will affect the operating revenues of the Academy. State and federal grant revenues decreased as the Academy received a one-time charter school start-up grant in the prior year as previously mentioned. Charges for services decreased significantly as the Academy did not provide the same level of service to other charter schools as they did in the prior year.

Capital Assets

The Academy maintains a capitalization threshold of $100. At June 30, 2007 the Academy had invested $315,347 in capital assets and reported $132,590 in related accumulated depreciation resulting in net capital assets of $182,757. During the year the Academy purchased $142,882 of furniture and equipment and reported depreciation expense of $73,155. In addition, during the year, the Academy agreed to sell capital assets with a net book value of $34,408 to another entity. See note 5 to the basic financial statement for additional details on the Academy's capital assets.

Debt Activity

At July 1, 2006, the Academy owed $50,000 against a line of credit it has at a local financial institution. During the current fiscal year the Academy borrowed an additional $50,000 against the line of credit for cash flow purposes and repaid $25,000 of principal as funds were available. The remaining $75,000 of outstanding principal is reported as a liability of the Academy as of June 30, 2007.

Contacting the Academy

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

Capitol City Academy
Attn: Treasurer
35 Midland Avenue
Columbus, Ohio 43223
(614) 324-1492

CAPITOL CITY ACADEMY, INC.

Statement of Net Assets

June 30, 2007

Assets		
Current assets:		
Cash and cash equivalents	$	44,450
Receivables:		
Grants		46,602
Accounts		60,000
Total current assets		151,052
Noncurrent assets:		
Capital assets, net of accumulated depreciation		182,757
Total noncurrent assets		182,757
Total assets		333,809
Liabilities		
Current liabilities:		
Accounts payable		51,999
Accrued wages payable		46,958
Intergovernmental payable		34,769
Line of credit payable		75,000
Total liabilities		208,726
Net assets		
Invested in capital assets		182,757
Unrestricted		(57,674)
Total net assets	$	125,083

See accompanying notes to the financial statements.

CAPITOL CITY ACADEMY, INC.

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007

Operating revenues:		
Foundation payments	$	874,359
Charges for services		1,505
Miscellaneous operating revenue		113
Total operating revenues		875,977
Operating expenses:		
Salaries		547,022
Fringe benefits		69,705
Building rental		194,391
Purchased services		219,327
Materials and supplies		60,421
Depreciation		73,155
Other		35,812
Total operating expenses		1,199,833
Operating loss		(323,856)
Non-operating revenues and (expenses):		
State and federal grant revenue		351,448
Local grant revenue		12,625
Interest and fiscal charges		(4,787)
Gain on sale of assets		25,592
Other non-operating revenue		36,590
Total non-operating revenues		421,468
Change in net assets		97,612
Net assets at beginning of year		27,471
Net assets at end of year	$	125,083

See accompanying notes to the basic financial statements.

CAPITOL CITY ACADEMY, INC.

Statement of Cash Flows

Year Ended June 30, 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:		
Cash from State of Ohio	$	891,583
Cash payments to suppliers for goods and services		(459,787)
Cash payments to employees for services and benefits		(667,500)
Other operating expenses		(35,812)
Other operating revenue		1,618
Net cash used for operating activities		(269,898)
Cash flows from noncapital financing activities:		
Federal and state subsidies		378,047
Local grants and contributions		12,625
Proceeds borrowed against line of credit		50,000
Line of credit principal repaid		(25,000)
Other non-operating income		36,590
Interest and fiscal charges		(4,787)
Net cash provided by noncapital financing activities		447,475
Cash flows from capital and related financing activities:		
Cash payments for capital acquisitions		(142,882)
Net cash used for capital and related financing activities		(142,882)
NET INCREASE IN CASH AND CASH EQUIVALENTS		34,695
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		9,755
CASH AND CASH EQUIVALENTS, END OF YEAR	$	44,450

(Continued)

See accompanying notes to the basic financial statements.

CAPITOL CITY ACADEMY, INC.
Statement of Cash Flows
Year Ended June 30, 2007
(Continued)

Reconciliation of operating loss to net cash used for for operating activities

Operating loss	$	(323,856)
Adjustments to Reconcile Operating Loss		
to Net Cash Used by Operating Activities:		
Depreciation		73,155
Changes in assets and liabilities:		
Increase in accounts payable		14,460
Decrease in accrued wages payable		(25,214)
Increase in intergovernmental payable		(8,443)
Total Adjustments		53,958
Net cash used for operating activities	$	(269,898)

Non-Cash Capital and Related Financing Item:

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

See accompanying notes to the basic financial statements.

1. Description of the Academy and Reporting Entity:

Capitol City Academy (the Academy) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The Academy, which is part of the State's education program, is independent of any Academy district. The Academy may sue and be sued, 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 Educational Resource Consultants of Ohio (Sponsor) for a period of five years commencing with fiscal year July 1, 2007 through June 30, 2011.

The Academy operates under a five-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility staffed by one principal and seventeen full-time and part-time personnel who provide services to an average of 137 students.

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 nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The more significant of the Academy's accounting policies are described below.

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in manner similar to private business enterprises and the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement focus and basis of accounting

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

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

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

C. Budgetary process

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

D. Cash and cash equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of $100. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of three to fifteen years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

G. Intergovernmental revenues

The Academy currently participates in the State Foundation Program. These funds are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

H. Accrued liabilities payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2007, including:

Wages payable – a liability has been recognized at June 30, 2007 for salary payments made after year-end that were for services rendered in fiscal year 2007.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($16,497), workers' compensation ($367), and Medicaid ($681) associated with services rendered during fiscal year 2007, but were not paid until the subsequent fiscal year. In addition to salary related payments, the Ohio Department of Education has determined the Academy received $17,224 in foundation payments ($13,944 for FY2006 and $3,280 for FY2007) which it was not entitled to receive. As a result these funds are being deducted from future foundation payments. Therefore, this amount has been booked as an intergovernmental payable as of June 30, 2007.

I. Federal tax exemption status

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

J. Net asset

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Cash Deposits:

At June 30, 2007, the carrying amount of the Academy's deposits was $44,450 and the bank balance was $53,775. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure", as of June 30, 2007, none of the bank balance was exposed to custodial credit risk as all of the bank balance was covered by the Federal Deposit Insurance Corporation.

4. Intergovernmental Receivables:

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2007 consisted of the following federal grants in which all grant requirements had been satisfied, Title I ($14,097), Title VIB ($14,480), Title II-A ($4,948), School Nutrition Program ($3,969), Public Charter Schools Grant ($2,549), and various other state and federal grants ($6,559).

5. Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Balance at July 1, 2006	Additions	Reductions	Balance at June 30, 2007
Capital Assets:				
Furniture and Equipment	$ 237,760	$ 142,882	$ (65,295)	$ 315,347
Accumulated Depreciation:				
Furniture and Equipment	(90,322)	(73,155)	30,887	(132,590)
Capital Assets, Net	$ 147,438	$ 69,727	$ (34,408)	$ 182,757

6. Risk Management:

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 2007, the Academy contracted with the Acordia of Columbus for business personal property, director and officer liability and general liability insurance with an aggregate $2 million coverage limit.

Settled claims have not exceeded the Academy's coverage in any of the last three fiscal years.

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

7. Defined Benefit Pension Plans:

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $9,644, $19,621 and $3,400, respectively; 88.3 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006 and 2005 were $48,182, $143,889 and $31,335, respectively; 89 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006 and 2005.

8. Postemployment Benefits

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $3,706 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $282.7 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $9,072.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

9. Short-Term Debt:

During the previous fiscal year, the Academy entered into a short-term debt agreement with Fifth Third Bank for a line of credit. At June 30, 2006 the Academy owed $50,000 on this line of credit. During fiscal year 2007, the Academy borrowed an additional $50,000 and repaid $25,000 on this line of credit, as well as paying $4,787 in interest payments during the year. The remaining $75,000 in principal on the line of credit, plus interest, is anticipated to be repaid by the Academy in fiscal year 2008.

10. Operating Lease:

The academy operates in a building through an operating lease entered into with DownTown Tiano II, Ltd. The lease is scheduled to expire September 30, 2009. The schedule lease payments called for in the lease agreement are as follows:

Period	Annual Rent	Monthly Rent
10/1/05 to 9/30/06	$ 183,470	$ 15,289
10/1/06 to 9/30/07	196,575	16,381
10/1/07 to 9/30/08	209,680	17,473
10/1/08 to 9/30/09	209,680	17,473

Lease payments made totaled $194,391 for the fiscal year.

11. Contingencies:

A. Grants

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

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review conducted by the Ohio Department of Education determined the Academy owed the Ohio Department of Education $17,224 at June 30, 2007. This amount is included within intergovernmental payables on the Academy's statement of net assets.

C. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is pending. The effect of this suit, if any, on the Academy is not presently determinable.

12. Purchased Services:

During the year ended June 30, 2007, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	$	109,912
Property Services		26,033
Travel & meeting expenses		30,377
Communications		19,432
Contracted craft or trades		284
Pupil transportation services		42
Other purchased services		33,247
Total	$	219,327

Mangen and Associates, LLC provided treasurer, financial management, CSADM/EMIS, and grant identification and application services for the Academy throughout the fiscal year. The amount paid for these fiscal services is stated above.

13. Management Plan:

At June 30, 2007, The Academy had an unrestricted net asset deficit of $57,674 which is a net change of $124,848 from the previous year. The Academy has a $75,000 line of credit from Fifth Third Bank to maintain the cash flow necessary during times of fluctuating receipts from state and federal sources. The Academy plans to pay off most of this line of credit during fiscal year 2008 based on based on cost savings from lower building lease payments, administration expense reductions, and additional spending reductions in ongoing operations. The Academy's Board of Trustees has adopted a balanced budget for the fiscal year ending June 30, 2008 which includes the full payoff of the Fifth Third line of credit. The Academy's future financial objectives includes building an unencumbered cash reserve equal to three months of average operating expenses during the 2009 and 2010 fiscal years to meet ongoing cash flow requirements without the need for an outside line of credit or any other form of short-term borrowing.

14. Subsequent Event:

Subsequent to the end of the 2007 fiscal year, the Academy has entered into a new lease agreement to utilize space for instruction at a different location than where instruction was provided in fiscal year 2007. The Academy is now located at 35 Midland Avenue, Columbus, Ohio 43223. Under the terms of the new lease agreement, the Academy anticipates the expense of leasing building space to be approximately $170,000 less in fiscal year 2008 compared with those incurred in fiscal year 2007.

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

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

To the Board of Trustees:

We have audited the financial statements of the Capitol City Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 22, 2008, wherein we noted the Academy experienced certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: Finding Number 2007-002.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Internal Control Over Financial Reporting (Continued)

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above as Finding Number 2007-002 is also a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated January 22, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

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

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

Mary Taylor, CPA
Auditor of State

January 22, 2008

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

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

FINDING NUMBER 2007-001

Noncompliance Citation

Approval of Purchases

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

The Academy did not properly certify the availability of funds prior to purchase commitment for 46% of the expenditures tested, contrary to the approved fiscal policy. Failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

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

Officials' Response:

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

FINDING NUMBER 2007-002

Significant deficiency and material weakness

Financial Statement Presentation

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

The following errors were noted involving the Academy's financial statement presentation:

- The Academy did not record a receivable for the sale of assets nor remove the assets from the capital assets listing ($60,000, $65,295 respectively);
- The Academy included a website service contract as a capital asset ($21,910).
- Restricted net assets had reclassifications totaling $75,000.

Not presenting financial information accurately resulted in the financial statements requiring the above audit adjustments and reclassification entries.

We recommend the Academy's Treasurer take steps to ensure the accurate presentation of the financial statements. Financial transactions should be posted in accordance with procedures established by generally accepted accounting principles (GAAP). By exercising accuracy in recording financial activity, the Academy can reduce posting errors and increase the reliability of the financial data throughout the year and at year end.

CAPITOL CITY ACADEMY
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)

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

FINDING NUMBER 2007-002 (Continued)

The Academy's financial statements and accounting records have been adjusted to accurately reflect the proper line item classifications.

Officials' Response:

The Academy used an outside CPA firm to prepare the conversion to accrual basis statements. The Treasurer intends to move away from using an outside contractor for this task in the future. Starting with the FY08 school year, the conversion will be performed by staff familiar with the school, its systems, and all other aspects of the Academy's financial situation.

Mary Taylor, CPA
Auditor of State

CAPITAL CITY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 8, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us