

Columbus Preparatory Academy
Franklin County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



Dave Yost • Auditor of State

Board of Trustees
Columbus Preparatory Academy
3330 Chippewa Street
Columbus, Ohio 43204

We have reviewed the *Independent Auditor's Report* of the Columbus Preparatory 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 Columbus Preparatory Academy is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

June 8, 2015

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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March 25, 2015

To the Board of Trustees
Columbus Preparatory Academy
Franklin County, Ohio
3330 Chippewa Street
Columbus, Ohio 43204

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Columbus Preparatory 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 17 to the financial statements, the Academy's deficit net position (\$5,548,178) and change in net position (\$522,822) raise substantial doubt about its ability to continue as a going concern. Note 17 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

Rea & Associates, Inc.

Medina, Ohio

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

The discussion and analysis of the Columbus Preparatory 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 ninth year of operation during fiscal year 2014 serving grades kindergarten through eighth grade. Enrollment varied during the year but finished with 650 full time equivalent students, an increase from fiscal year end 2013.

Key highlights for fiscal year 2014 are as follows:

- Net position decreased \$522,822 as compared to \$1,047,233 in the prior fiscal year.
- Enrollment increased from 588 in fiscal year 2013 to 650 in fiscal year 2014.
- Total revenue increased from \$4,612,828 in fiscal year 2013 to \$5,120,638 in fiscal year 2014.
- Total operating expenses (excluding interest expense) decreased from \$5,375,785 in fiscal year 2013 to \$5,331,608.

Overview of the Financial Statements

The financial report consists of three parts, the management discussion and analysis, the basic financial statements and the notes to the 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 the full understanding of the data provided on the basic financial statements.

Financial Analysis of the Academy as a Whole

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from the governmental-wide financial statements is included in the discussion and analysis.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

Table 1 provides a summary of Academy's net position for 2014 compared to 2013:

Table 1
Net Position

	2014	2013	Change
<u>Assets:</u>			
Current Assets	\$272,585	\$47,854	\$224,731
Capital Assets	278,764	271,620	7,144
Total Assets	<u>551,349</u>	<u>319,474</u>	<u>231,875</u>
<u>Liabilities:</u>			
Current Liabilities	5,976,261	5,164,815	811,446
Long-Term Liabilities	123,266	180,015	(56,749)
Total Liabilities	<u>6,099,527</u>	<u>5,344,830</u>	<u>754,697</u>
<u>Net Position:</u>			
Net Invested in Capital Assets	232,233	201,173	31,059
Restricted for Other Purposes	0	3,644	(3,644)
Unrestricted	<u>(5,780,411)</u>	<u>(5,230,173)</u>	<u>(550,237)</u>
Total Net Position	<u><u>(\$5,548,178)</u></u>	<u><u>(\$5,025,356)</u></u>	<u><u>(\$522,822)</u></u>

Total net position decreased \$522,822. The cause of the decrease was the Board's recognition of the need to continue to offer programming that would accelerate learning of underperforming students faster than the traditional single grade level gains. The goal of the Board and management is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. Enrollment at the end of fiscal year 2014 was 650 students, a 10.5% increase of students from fiscal year end 2013. The capacity of the current facility is approximately 725 students. This includes a recent renovation of the second floor that expanded the enrollment capacity by approximately 50 students. For the fall of fiscal year 2015, the Academy's funded enrollment has increased to 675 students.

Based on continued analysis of enrollment data, the Board and its management are committed to following the plan to invest in the future of the children of this community, not based on a plan that is expected to generate economic profits, but rather on a plan that is economically sustainable over the long term and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs are being made available by delaying payment on invoices from the Academy's management company for certain rent, management services, operating expenses and personnel services.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

Table 2 reflects the changes in net position for fiscal year 2014 as compared to 2013:

Table 2
Change in Net Position

	2014	2013	Change
<u>Operating Revenues:</u>			
State Aid	\$4,264,343	\$3,755,429	\$508,914
Charges for Services	105,888	108,284	(2,396)
Miscellaneous	21,743	10,032	11,711
<u>Non-Operating Revenues:</u>			
Federal/State Restricted Grants	728,664	739,083	(10,419)
Total Revenues	<u>5,120,638</u>	<u>4,612,828</u>	<u>507,810</u>
<u>Operating Expenses:</u>			
Purchased Services	5,046,381	5,081,213	(34,832)
Depreciation	58,391	43,318	10,802
General Supplies	168,006	192,476	(24,470)
Other Operating Expense	58,830	58,778	(3,828)
<u>Non-Operating Expenses:</u>			
Interest	311,852	284,276	27,576
Total Expenses	<u>5,643,460</u>	<u>5,660,061</u>	<u>(24,752)</u>
Changes in Net Position	<u>(522,822)</u>	<u>(\$1,047,233)</u>	<u>\$532,562</u>

Fiscal year 2014 showed an increase in net revenue primarily due to the increase in enrollment.

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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the Academy had \$232,232 invested in capital assets (net of accumulated depreciation and related capital leases payable) for computers, furniture and equipment, leasehold improvements, and construction in progress, an increase of \$31,058. The following table shows fiscal year 2014 compared to 2013:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Computers	\$5,195	\$5,195	\$0
Furniture & Equipment	55,529	52,222	3,307
Construction in Progress	25,000	-	25,000
Leasehold Improvements	<u>193,040</u>	<u>214,203</u>	<u>(21,163)</u>
 Total Capital Assets - net	 278,764	 271,620	 7,144
 Capital Leases Payable	 <u>46,532</u>	 <u>70,446</u>	 <u>(23,914)</u>
 Net Invested in Capital Assets	 <u><u>\$232,232</u></u>	 <u><u>\$201,174</u></u>	 <u><u>\$31,058</u></u>

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

Debt

At June 30, 2014, the Academy had \$843,496 in notes and capital leases outstanding, of which \$720,230 is due within one year. The following table summarizes the Academy's debt outstanding as of June 30, 2014:

	Outstanding Debt, at Year End		
	<u>2014</u>	<u>2013</u>	<u>Change</u>
Capital Leases Payable	\$46,532	\$70,446	(\$23,914)
Mosaica Education Promissionary Notes	796,964	830,299	(33,335)
Total	<u><u>\$843,496</u></u>	<u><u>\$900,745</u></u>	<u><u>(\$57,249)</u></u>

For further information regarding the Academy's debt, refer to Note 12 to the basic financial statements.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

Economic Factors

The Academy is experiencing financial difficulty; see Note 17 to the basic financial statements for further information.

Operations

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

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any question concerning this report, please contact the administrative offices of Columbus Preparatory Academy, 3330 Chippewa Street, Columbus, Ohio 43204.

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

Assets:

Current assets:

Cash and Cash Equivalents	\$ 46,522
Intergovernmental Receivable	197,603
Prepaid Expense	28,460
Total current assets	<u>272,585</u>

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation	278,764
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Total assets

551,349

Liabilities:

Current liabilities:

Accounts Payable, Trade	203,893
Accounts Payable, Related Party	5,052,138
Current Portion of Long-term Debt	720,230
Total current liabilities	<u>5,976,261</u>

Noncurrent liabilities:

Noncurrent Portion of Long-term Debt	123,266
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Total liabilities

6,099,527

Net Position

Net Invested in Capital Assets	232,233
Unrestricted	(5,780,411)
Total Net Position	<u>\$ (5,548,178)</u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Operating Revenues:	
State Aid	\$ 4,264,343
Charge for Services	105,888
Miscellaneous	21,743
Total Operating Revenues	<u>4,391,974</u>
Operating Expenses:	
Purchased Services	5,046,381
Depreciation	24,465
General Supplies	168,006
Other Operating Expenses	92,756
Total Operating Expenses	<u>5,331,608</u>
Operating Loss	<u>(939,634)</u>
Nonoperating Revenues and (Expenses):	
Federal and State Restricted Grants	728,664
Interest Expense	(311,852)
Net Nonoperating Revenues and (Expenses)	<u>416,812</u>
Change in Net Position	(522,822)
Net Position Beginning of Year	<u>(5,025,356)</u>
Net Position End of Year	<u><u>\$ (5,548,178)</u></u>

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

CASH FLOWS FROM OPERATING ACTIVITIES

State Aid Receipts	\$ 4,264,343
Charge for Services	107,889
Other Operating Receipts	21,743
Cash Payments to Suppliers for Goods and Services	(4,517,506)
Net Cash Used for Operating Activities	<u>(123,531)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Note Payable Interest Payment	(59,727)
Note Payable Principal Retirement	(33,335)
Short-term Financing Payments	(247,076)
Federal and State Grant Receipts	552,362
Net Cash Provided by Noncapital Financing Activities	<u>212,224</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	(31,609)
Capital Lease Interest Payments	(5,050)
Capital Lease Principal Retirement	(23,914)
Net Cash Used for Capital and Related Financing Activities	<u>(60,573)</u>

Net Increase in Cash and Cash Equivalents	28,120
Cash and Cash Equivalents - Beginning of the Year	18,401
Cash and Cash Equivalents - Ending of the Year	<u>\$ 46,522</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$ (939,634)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation	24,465
Changes in assets and liabilities:	
Decrease in Receivables	2,000
Increase in Prepaid Expense	(22,308)
Increase in Accounts Payable, Trade	607
Increase in Accounts Payable, Related Party	811,339
Net Cash Used for Operating Activities	<u><u>\$ (123,531)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

Note 1 - Description of the School

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

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of four academic years commencing after July 1, 2004 and ending June 30, 2008 and subsequently renewed for a ten year term set to expire on June 30, 2018. 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 carrying out the provisions of the contract that include, but are not limited to, state-mandated provision regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

The Academy 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 15.

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.

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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Budgetary Process

Unlike other public 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.

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 fiscal year ended June 30, 2014.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2014, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2014 consisted of construction in progress, computers, furniture, leasehold improvements 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital assets, except for 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>
Computers, Furniture and Equipment	5-20 years
Leasehold Improvements	Remaining term of lease

H. 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 the 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. There is no enabling legislation at June 30, 2014. The statement of net position reflects \$232,233 net invested in capital assets, which represents capital assets net of accumulated depreciation minus any outstanding obligations used to finance the purchase of those assets.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

K. Economic Dependency

The Academy receives approximately 97% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2014 the book balance was \$46,522, and the bank balance of Academy's deposits was \$74,832. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 4 – Receivables

At June 30, 2014, the Academy had intergovernmental receivables, in the amount of \$197,603. The receivables are expected to be collected within one year.

Grant	Amount
Title I	\$ 69,187
Title II D	876
IDEA B	30,956
School Counselor	78,844
Race To The Top	15,595
Other	2,145
Total Intergovernmental Receivables	\$ 197,603

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Non-Depreciable Capital Assets:				
Construction in Progress	\$ -	\$ 25,000	\$ -	\$ 25,000
Depreciable Capital Assets:				
Furniture & Equipment	75,690	6,609	-	82,299
Computers	214,503	-	-	214,503
Leasehold Improvements	317,447	-	-	317,447
Total Depreciable Capital Assets	607,640	6,609	-	614,249
Less Accumulated Depreciation:				
Furniture & Equipment	(23,467)	(3,304)	-	(26,771)
Computers	(209,308)	-	-	(209,308)
Leasehold Improvements	(103,245)	(21,161)	-	(124,406)
Total Accumulated Depreciation	(336,020)	(24,465)	-	(360,485)
Depreciable Capital Assets, Net of Accumulated Depreciation	271,620	(17,856)	-	253,764
Total Capital Assets	\$ 271,620	\$ 7,144	\$ -	\$ 278,764

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 6 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the Academy contracted with Pashley Insurance Agency to obtain insurance coverage with the Hartford Casualty Insurance Company.

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
Building 3,	118,000
Business Personal Property	300,000
Excess/Umbrella Liability:	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

Note 7 – Purchased Services

For the period July 1, 2013 through June 30, 2014, purchased service expenses were as follows:

Purchased Service	Amount
Personnel Services	\$2,737,429
Professional Services	755,060
Building Services	1,266,108
Food Service	150,902
Sponsor Services	83,437
Administrative Services	53,445
Total	<u><u>\$5,046,381</u></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.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 8 - Defined Benefit Pension Plans (Continued)

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, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board, The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.1 percent. The remaining .9 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2014, 2013 and 2012 were \$31,147, \$35,910 and \$33,701, respectively; which equaled the required contributions each year.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio issues a stand-alone financial report. Copies of the STRS Ohio's 2014 Comprehensive Annual Financial Report can be requested in writing to STRS Ohio, 275 E Broad St, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or visiting the STRS Ohio website at www.strsoh.org.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state of any political subdivision thereof.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit", the retirement allowance is based on years of credited service and final average

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 8 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-value purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation or every year of Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 and 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested for the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balances. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a members on or after age 60. The defined contributions portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy – Chapter 3307 of the Revised Code provides statutory authority for members and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 8 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11 percent of covered payroll for members and 14 percent for employers. Employer contributions actually paid should be disclosed in both dollar amounts and as a percentage of the employer's covered payroll for the current year and the two preceding years. Member and employer contributions actually made for DC and Combined Plan participants will be provided upon written request.

The Academy required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, 2012 were \$257,262, \$230,250 and \$243,288 respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012, respectively. Contributions to the DC and Combined Plans for fiscal year 2014 were made by the Academy.

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.

Note 9 - Postemployment Benefits

A. School Employee Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium of the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$355.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2014, the actuarially required allocation is .75 percent. The Academy's contributions for the years ended June 30, 2014, 2013, and 2012 were \$1,807, \$2,029 and \$1,990, respectively, which equaled the required contributions each year.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 9 - Postemployment Benefits (Continued)

A. School Employee Retirement System (Continued)

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to Health Care Fund. For the year ended June 30, 2014, the health care allocation is .14 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$333, \$439 and \$1,459, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare Part B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 9 - Postemployment Benefits (Continued)

B. State Teachers Retirement System (Continued)

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associate health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to postemployment health care for the years ended June 30, 2014, 2013, and 2012. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The Academy's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$18,376, \$17,712 and \$18,714, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012, respectively.

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 affect 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 resulted in an immaterial adjustment, and therefore will be included in the financial activity for fiscal year 2015.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 11 – Building Leases

The Academy has entered into a lease for the period from January 2005 through December 2019 with EFA Company, LLC a wholly owned subsidiary of Mosaica Education, Inc. for the use of the main building and grounds as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 15. Net occupancy costs incurred totaled \$938,244 for the fiscal year. Under the lease agreement, the Academy is responsible for paying all utilities, maintenance and repairs, and applicable property taxes.

There are scheduled inflationary rent adjustments (lesser of 5% or CPI factor) effective January 1 once every two years. The lease also stipulates that renovation investments in the building by the owner will cause the rent to increase by an annual factor of 9.25% - 10% of the investment. During fiscal 2014, the owner invested no funds into the property.

The following is a schedule of the future minimum payments for base rent required under the lease (assuming a 5% increase every 2nd year) as of June 30, 2014 (does not include additional building investments by the owner / landlord or facility costs pass-through):

Fiscal Year Ending June 30	Amount
2015	\$ 965,607
2016	985,153
2017	1,009,780
2018	1,034,408
2019	1,060,269
2020	543,064
Total minimum lease payments	<u>\$ 5,598,281</u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 12 – Long-Term Obligations

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

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014	Amount Due Within One Year
Mosaica Education, Inc. Promissory Note	\$830,299	\$0	(\$33,335)	\$796,964	\$696,964
Capital Leases Payable	70,446	0	(23,914)	46,532	23,266
Long-Term Obligations	<u>\$900,745</u>	<u>\$0</u>	<u>(\$57,249)</u>	<u>\$843,496</u>	<u>\$720,230</u>

Mosaica Education, Inc. Promissory Note- On December 7, 2005, the Academy entered into a \$763,631 promissory note with Mosaica Education, Inc., a related party (see Note 16), for the outstanding accounts payables. The promissory note has an interest rate of 9.0 percent and matured in fiscal year 2012. No note extension has been executed. During fiscal year 2014 the Academy paid no funds against the outstanding principal balance. Furthermore, no principal retirement is projected for fiscal year 2015. As such, the entire outstanding balance of unpaid principal per the agreement is classified as a current liability on the June 30, 2014 Statement of Net Position. The outstanding principal balance at June 30, 2014 and 2013 was \$663,631. Interest expense incurred on this promissory note for the fiscal years ended June 30, 2014 and 2013 was \$59,727 and \$59,727, respectively.

Mosaica Education, Inc. Promissory Note- In July 2009, the Academy executed a non-interest bearing \$300,000 promissory note payable to Mosaica Education, Inc., a related party (see Note 15), to reimburse Mosaica for organizational and development costs incurred during the pre-opening stage of the Academy. The note is payable in 108 equal monthly installments of \$2,778 with a final installment due in June 2018. The outstanding principal balance at June 30, 2014 and 2013 was \$133,333 and \$166,668, respectively.

The following is a schedule of the future minimum payments required under the promissory notes as of June 30, 2014:

Fiscal Year Ending June 30,	2005 Note	2009 Note	Total
2015	\$723,358	\$33,333	\$756,691
2016	-	33,333	33,333
2017	-	33,333	33,333
2018	-	33,334	33,334
Total future minimum payments	723,358	133,333	856,691
Less: amount representing interest	(59,727)	-	(59,727)
Present Value of Future payments	<u>\$ 663,631</u>	<u>\$133,333</u>	<u>\$ 796,964</u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 13 – Capital Lease-Lessee Disclosure

In fiscal 2009, the Academy entered into two capitalized leases for the purchase of: HVAC unit, computer equipment, software, furnishings and classroom supplies. The leases meet the criteria of capital lease as defined by the Standards, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The lease terms range from 60 to 84 months with a combined monthly base payment of \$2,982.

The following is a schedule of the future minimum lease payments required under the capital leases:

Year Ending June 30,	Base Payments Required
2015	\$ 25,552
2016	25,552
Total future minimum lease payments	<u>51,104</u>
Less: Amount representing interest	<u>(4,572)</u>
Present Value of future minimum lease payments	<u>\$ 46,532</u>

Note 14 –Tax Exempt Status

In November 2010, the Academy received notification from the Internal Revenue Service that its application for tax exemption under section 501 (c)(3) of the Internal Revenue Code has been approved with an effective date of exemption of March 17, 2004.

Note 15 – Related Party Transactions/Management Company

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

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2014 was \$610,979.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual cost incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries, of Mosaica Education, Inc employees working at the Academy, and other costs related to providing educational and administration services. The total expenses billed by Mosaica Education Inc. during fiscal year 2014 were \$3,893,415.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

Note 15 – Related Party Transactions/Management Company (continued)

At June 30, 2014 the Academy had payables to Mosaica Education, Inc. in the amount of \$4,991,481. The following is a schedule of payables owed to Mosaica Education, Inc.

	<u>Amount</u>
Building Rent and Tax Passthrough	\$ 1,864,304
Payroll	1,918,004
Management Fees	412,078
Interest/Fiscal Charges	739,491
Other	<u>57,604</u>
Total at June 30, 2014	<u><u>\$4,991,481</u></u>

Note 16 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) through June 30, 2018. As part of this contract, the Sponsor is entitled to a maximum of 2% of foundation revenues. Total amount due and paid for fiscal year 2014 was \$83,437.

Note 17 – Management’s Plan

For fiscal year 2014, the Academy had a decrease in net position of \$522,822, and a cumulative net position deficit of \$5,548,178.

Final full-time equivalent students were 650 and 588 students for the fiscal years ending June 30, 2014 and 2013, respectively. Current full-time equivalent student enrollment as of March 2015 is 575. Management plans to increase enrollment through active advertising via print, radio, mailings, and through referrals of current parents which will help achieve enrollment closer to the capacity of the facility which, in turn, will generate future surpluses. The approximate capacity of the facility is 725 students.

Note 18 – Subsequent Events

Subsequent to year end, the Academy has borrowed \$995,530 in short-term loans against future foundation payments with Charter School Capital, to be repaid over a three month period from issuance. The imputed interest rate is 18% per annum.

The Academy has also been forced to restructure its long term obligations and accounts payable-related party held by Mosaica Education Inc. to Tatonka Capital Corporation, due to a court ordered receivership between Tatonka Capital Corporation and Mosaica Education Inc.

March 25, 2015

To the Board of Trustees
Columbus Preparatory Academy
Franklin County, Ohio
3330 Chippewa Street
Columbus, Ohio 43204

**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 Columbus Preparatory 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 and questioned costs as item 2014-002 that we consider to be a significant deficiency.

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 and questioned costs 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 and questioned costs. 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

March 25, 2015

To the Board of Trustees
Columbus Preparatory Academy
Franklin County, Ohio
3330 Chippewa Street
Columbus, Ohio 43204

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

Report on Compliance for Each Major Federal Program

We have audited the Columbus Preparatory Academy, Franklin County, Ohio (the "Academy") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2014. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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

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

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

Rea & Associates, Inc.

Medina, Ohio

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA #	Grant Year	Revenues	Expenses
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2014	\$ 300,141	\$ 300,141
Special Education IDEA Part B	84.027	2014	92,045	92,045
Title III English Language Acquisition Grants	84.365	2014	19,744	19,744
Title II-A Improving Teacher Quality	84.367	2014	3,413	3,413
ARRA - Race to the Top	84.395	2014	71,008	71,008
<i>Total Passed through Ohio Department of Education</i>			<u>486,351</u>	<u>486,351</u>
<i>Direct Award</i>				
Fund for the Improvement of Education	84.215	2014	103,865	103,865
<i>Total U.S. Department of Education</i>			<u>590,216</u>	<u>590,216</u>
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Cash Assistance:</i>				
School Breakfast Program	10.553	2014	21,601	21,601
National School Lunch Program (B)	10.555	2014	111,879	111,879
<i>Total Child Nutrition Cluster</i>			<u>133,480</u>	<u>133,480</u>
<i>Total U.S. Department of Agriculture</i>			<u>133,480</u>	<u>133,480</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 723,696</u>	<u>\$ 723,696</u>

The accompanying notes are an integral part of this schedule.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School's federal awards programs. This schedule has been prepared using the accrual basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. Food Distribution Program nonmonetary assistance is reported in the schedule of expenditures of federal awards at the entitlement value of the commodities received and disbursed. During the fiscal year ended June 30, 2014, the School received no food commodities inventory.

NOTE C - TRANSFERS

The School generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During fiscal year 2014, the ODE authorized the following transfers:

<u>CFDA Number / Grant Title</u>	<u>Grant Year</u>	<u>Transfer Out</u>	<u>Transfer In</u>
84.027 Special Education IDEA Part B	2013	\$ 50,842	
84.027 Special Education IDEA Part B	2014		\$ 50,842
84.395 ARRA - Race to the Top	2013	2,244	
84.395 ARRA - Race to the Top	2014		2,244
		<u>\$ 53,086</u>	<u>\$ 53,086</u>

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2014**

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

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Cont.)
OMB CIRCULAR A-133, Section .505
JUNE 30, 2014**

2. 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.

**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, which in turn lead to delays in finalizing of year end records, ability to perform audit procedures in a timely manner, and timely reports to the Board of Trustees to ensure accurate management of the Academy's functions.

Cause: Due to the small size of the previous treasurer's department, as well as the various turnover in treasurer's position throughout the year, timely reconciliations were not performed throughout the year. Upon the final successor treasurer taking over in September 2014, all bank reconciliations have been performed timely.

**COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Cont.)
OMB CIRCULAR A-133, Section .505
JUNE 30, 2014**

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

**FINDING #2014-002 (Continued)
Significant Deficiency – Bank Reconciliation**

Potential Effect: Without complete and timely reconciliation of the bank statements versus 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.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None were noted.



Dave Yost • Auditor of State

COLUMBUS PREPARATORY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 23, 2015**