Academy of Columbus

Franklin County, Ohio

Regular Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007


BALESTRA, HARR & SCHERER, CPAs, Inc.
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Mary Taylor, CPA
Auditor of State

Board of Directors
Academy of Columbus
4656 Heaton Road
Columbus, Ohio 43229-6612

We have reviewed the *Independent Auditor's Report* of the Academy of Columbus, Franklin County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. 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 Academy of Columbus is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 8, 2008

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**ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**
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**Independent Auditor's Report**

Academy of Columbus
Franklin County
4656 Heaton Rd
Columbus, Ohio

We have audited the financial statements of the business-type activities of the Academy of Columbus (the Academy), as of and for the year ended June 30, 2007, which comprise the Academy's basic financial statements 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.

Except as discussed in the following paragraph, 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accounting records to support the professional services: management fees and the required note disclosure, maintained by the management company for the fiscal year ended June 30, 2007, were incomplete. We were unable to form an opinion regarding the amounts at which professional services: management fees and the required note disclosure are recorded in the accompanying statement of revenues, expenses and changes in net assets and the required note disclosure for the fiscal year ended June 30, 2007 (stated at $3,597,842).

In our opinion, except for the effects of such adjustments, in any, as might have been determined to be necessary had the records concerning professional services: management fees been adequate, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the business type activities of the Academy, as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
March 31, 2008

**ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(*Unaudited*)

The discussion and analysis of the Academy of Columbus's (the "Academy") financial performance provides an overall review of the Academy's 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 notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

## Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets were $30,768 at June 30 2007.

- The Academy had operating revenues of $3,154,712, operating expenses of $3,598,248 and non-operating revenues of $463,400 for fiscal year 2007. Total change in net assets for the fiscal year was an increase of $19,864.

## Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

## Reporting the Academy's Financial Activities

### *Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows*

These documents look at all financial transactions and ask the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 6 and 7 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 8 of this report.

The table below provides a summary of the Academy's net assets for fiscal year 2007 and 2006.

**Net Assets**

| | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 33,082 | $ 18,982 |
| Total assets | 33,082 | 18,982 |
| **Liabilities** | | |
| Current liabilities | 2,314 | 8,078 |
| Total liabilities | 2,314 | 8,078 |
| **Net Assets** | | |
| Unrestricted | 30,768 | 10,904 |
| Total net assets | $ 30,768 | $ 10,904 |

Cash and other current assets were $33,082 in 2007 and $18,982 in 2006. This is a result of cash from operations and an intergovernmental receivable due to the Academy at year end.

The Academy had no Capital Assets in 2007 or 2006. This is due to Imagine Schools, Inc. providing all of the furniture and fixtures as part of its management agreement.

Liabilities were $2,314 at June 30, 2007 and $8,078 at June 30, 2006 primarily due to accounts payable to various vendors.

Total net assets were $30,768 and $10,904 at June 30, 2007 and 2006, respectively. This positive equity represents the excess revenues from state aid not paid out to Imagine or other vendors.

The table below shows the changes in net assets for fiscal year 2007 and 2006.

**ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(*Unaudited*)

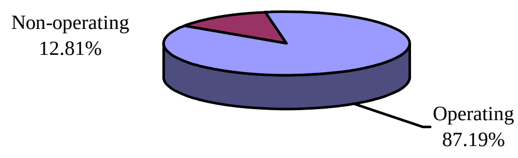
**Change in Net Assets**

| | 2007 | 2006 |
|---|---|---|
| **Operating Revenues:** | | |
| State foundation | $ 2,283,849 | $ 1,159,523 |
| In-Kind Contributions | 870,863 | 1,108,938 |
| Total operating revenue | 3,154,712 | 2,268,461 |
| **Operating Expenses:** | | |
| Purchased services | 3,597,842 | 2,279,669 |
| Materials and supplies | 85 | 2,633 |
| Other | 321 | 1,051 |
| Total operating expenses | 3,598,248 | 2,283,353 |
| **Non-operating Revenues:** | | |
| Federal and State grants | 463,400 | 25,246 |
| Other non-operating revenues | - | 550 |
| Total non-operating revenues | 463,400 | 25,796 |
| Change in net assets | 19,864 | 10,904 |
| Net assets at beginning of year | 10,904 | - |
| Net assets at end of year | $ 30,768 | $ 10,904 |

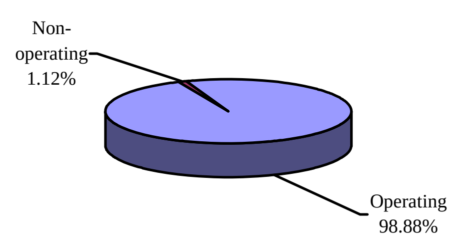
The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. In addition, the Academy received a significant amount of in-kind contributions. Foundation payments made up 63% and 51% of revenues for the Academy in fiscal years 2007 and 2006, respectively. In-kind contributions made up 24% and 48% of revenues for the Academy in fiscal years 2007 and 2006, respectively. The full-time equivalent student count for fiscal years 2007 and 2006 were 351 and 185, respectively.

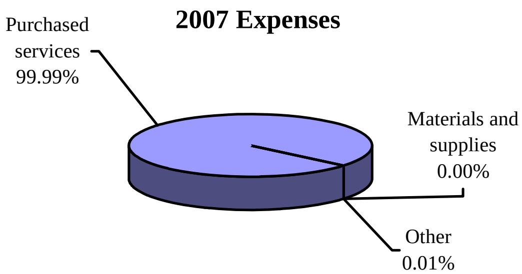
The charts below illustrate the revenues and expenses for the Academy during fiscal 2007 and 2006.

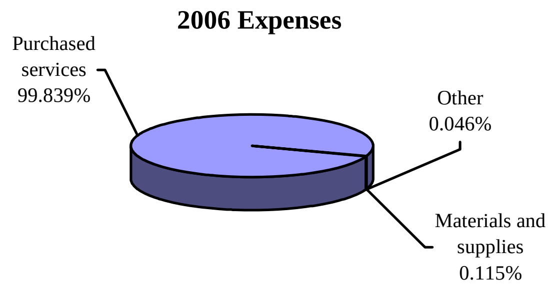
**2007 Revenues**




**2006 Revenues**






**Budgeting Highlights**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the community school's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe a budgetary process. The Academy has developed a one year spending plan and a five-year projection that is reviewed periodically by the Board of Trustees.

**Current Financial Related Activities**

The Academy is reliant upon State Foundation monies and federal grants to offer quality, online learning to students.

In order to continually provide online learning opportunities to the Academy's students, the Academy will apply all financial resources and to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our clients 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 questions about this report or need additional financial information contact Ms. Arlene Wilson, Treasurer, Charter School Specialists, 4656 Heaton Rd., Columbus, Ohio 43229.

**ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2007

| | | |
|---|---|---|
| **Assets:** | | |
| Current assets: | | |
| Cash . . . . . . . . . . . . . . . . . . . . . . | $ | 7,885 |
| Receivables: | | |
| Intergovernmental . . . . . . . . . . . . . . | | 25,197 |
| Total assets . . . . . . . . . . . . . . . . . . . . | | 33,082 |
| **Liabilities:** | | |
| Current liabilities: | | |
| Accounts payable . . . . . . . . . . . . . . . | | 2,314 |
| Total liabilities . . . . . . . . . . . . . . . . . | | 2,314 |
| **Net Assets:** | | |
| Unrestricted . . . . . . . . . . . . . . . . . . . . | | 30,768 |
| Total net assets . . . . . . . . . . . . . . . . . | $ | 30,768 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| | | |
|---|---|---|
| **Operating revenues:** | | |
| State foundation. . . . . . . . . . . . . . . . | $ | 2,283,849 |
| In-kind contributions. . . . . . . . . . . . . . | | 870,863 |
| Total operating revenue . . . . . . . . . . . . | | 3,154,712 |
| **Operating expenses:** | | |
| Professional services: management fees . . . . | | 3,597,842 |
| Materials and supplies . . . . . . . . . . . . . | | 85 |
| Other. . . . . . . . . . . . . . . . . . . . . . | | 321 |
| Total operating expenses. . . . . . . . . . . . | | 3,598,248 |
| Operating loss . . . . . . . . . . . . . . . . . | | (443,536) |
| **Non-operating revenues:** | | |
| Federal and state grants . . . . . . . . . . . . | | 463,400 |
| Total non-operating revenues . . . . . . . . . | | 463,400 |
| Change in net assets . . . . . . . . . . . . . . | | 19,864 |
| **Net assets at beginning of period. . . . . . .** | | 10,904 |
| **Net assets at end of period. . . . . . . . . .** | $ | 30,768 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| | | |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from state foundation . . . . . . . . . . | $ | 2,283,849 |
| Cash payments to suppliers for goods and services. . . | | (2,732,743) |
| Cash payments for materials and supplies . . . . . . . | | (85) |
| Cash payments for other expenses . . . . . . . . . . . | | (321) |
| Net cash used in operating activities . . . . . . . . . . . . . . . . . . | | (449,300) |
| **Cash flows from noncapital financing activities:** | | |
| Federal and state grants. . . . . . . . . . . . . . . . . | | 443,213 |
| Net cash provided by noncapital financing activities . . . . . . . . . . . . . . . . . . . | | 443,213 |
| Net decrease in cash and cash equivalents . . . . . . . . | | (6,087) |
| **Cash and cash equivalents at beginning of period. . .** | | 13,972 |
| **Cash and cash equivalents at end of period . . . . . .** | $ | 7,885 |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss . . . . . . . . . . . . . . . . . . . . . . | $ | (443,536) |
| Changes in assets and liabilities: | | |
| Decrease in accounts payable . . . . . . . . . . . . . . | | (5,764) |
| Net cash used in operating activities . . . . . . . . . . . . . . . . . . . | $ | (449,300) |
| **Noncash Transactions** | | |
| In-Kind Contributions | $ | 870,863 |
| Professional Services: Management Fees | | 870,863 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Academy of Columbus (the "Academy") is a state nonprofit corporation established pursuant to Ohio Revised 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 school 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 contracts with Imagine Schools, Inc. (Imagine) for most functions. See Note 5 for detail.

The Academy signed a contract with sponsor, Ohio Council of Community Schools, to operate for a period of July 1, 2005 through June 30, 2010. Effective July 1, 2005, House Bill 364 required schools to be sponsored by an approved Ohio Department of Education sponsor.

The Academy operates under a self-appointing, five member Board of Directors (the "Board") The Academy's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. 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 began operations in August 2005 and has one instructional/support facility, which is leased by Imagine. The facility is staffed with teaching personnel employed by Imagine, who provide services to 351 students.

## 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 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 does not apply FASB statements and interpretations issued after November 30, 1989 to its proprietary activities. The more significant of the Academy's accounting policies are described below.

### A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The Academy uses enterprise accounting to maintain its financial activities. Enterprise accounting focuses on 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 and services.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

### B. Measurement Focus and Basis of Accounting

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 statement of revenues, expenses, and changes in net assets presents increases and decreases in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. Revenues 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. Revenues resulting from non-exchange transaction, in which the Academy received value without directly giving equal value in return, such as grants, entitlements, and donations are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

### C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

### D. Cash and Cash Equivalents

All cash received by the Academy is maintained in a demand deposit account. The Academy did not have any investments during the fiscal year 2007.

### E. Capital Assets and Depreciation

The Academy operates under a management agreement with Imagine, and as such, the Academy has no capital assets (see Note 5).

### F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under the above programs for the 2007 school year totaled $2,283,849.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year 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. The Academy received $463,400 in state and federal grants during fiscal year 2007.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

### G. 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.

### H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

### I. Use of Estimates

In preparing financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 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, 2007, the carrying amount of the Academy's deposits was $7,885 and the bank balance was $7,885. Of the bank balance, all was covered by the Federal Depository Insurance Corp. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

## NOTE 4 - RISK MANAGEMENT

### A. Property and Liability

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. As part of its agreement with Imagine, Imagine has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (see Note 5).

### B. Director and Officer

Coverage has been purchased by the Academy with a $1,000,000 aggregate limit and no deductible.

### C. Workers' Compensation

Imagine is responsible for paying the State Workers' Compensation System a premium for employee injury coverage.

## NOTE 5 - AGREEMENT WITH IMAGINE

Effective April 25, 2005, the Academy entered into a Management Agreement (the "Agreement") with Imagine, which is an educational consulting and management company. The term of the agreement is indefinite with the only expiration coming in conjunction with the termination of the Academy's charter. Imagine is responsible and accountable to the Board for the administration, operation and performance of the Academy in accordance with the Academy's contract with the Sponsor to operate the Academy. The Academy had professional service expenses for the year ended June 30, 2007 to Imagine of $2,726,979. The remaining $870,863 in professional services expenses was recorded as in-kind contributions. Significant provisions of the Agreement are as follows:

Management, Consulting, and Operation Fee - The Academy is required to pay Imagine a monthly continuing fee of all of the Academy's "Revenues", defined in the Agreement as "…all revenue…shall not include Other Funds, Start up Advances, or Operating Advances…" and "shall be deposited within 3 business days of receipt into a Charter School Operating Account established by Imagine".

Other Academy Financial Responsibilities - The Academy is responsible for its directors' and officers' insurance, legal fees for Academy Board representation and general corporate matters, accounting, audit, tax and consulting fees for the Academy, and other miscellaneous expenses not incurred in the normal day-to-day operation of the Academy.

Imagine Financial Responsibilities - Except as otherwise provided in the Agreement, all costs incurred in providing the educational program at the Academy are to be paid by Imagine. Such costs include, but are not limited to, salaries and benefits for all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, building payments, maintenance, and capital improvements. All personal property used in the operation of the Academy is the property of Imagine, unless purchased directly by the Academy with federal funds.

Imagine is required to maintain, at Imagine's expense, commercial general liability insurance in the name of the Academy in an amount not less than $1 million per occurrence and $2 million in the aggregate, and excess umbrella liability insurance of not less than $10 million per occurrence and $15 million in the aggregate.

Personnel - Imagine has the responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, transfer and terminate personnel, consistent with state and federal law and the contract.

Compensation and benefits of all employees of the Academy is paid by Imagine. If imagine fails to pay this compensation, the Academy, in its sole discretion, may pay such compensation and offset the amount by withholding an equal amount from the fees owed to Imagine under the Agreement.

Termination by the Academy - The Academy may terminate the Agreement in the event Imagine materially breaches the Agreement of the Contract and Imagine does not cure the material breach within 30 days of its receipt of written notice from the Academy, unless the breach cannot be reasonably cured within 30 days, in which case Imagine shall promptly undertake and continue efforts to cure the material breach within a reasonable time.

Termination by Imagine - Imagine may, at its option, terminate the Agreement upon the occurrence of certain events as defined in the Agreement.

## NOTE 6 - SERVICE CONTRACT

The Academy entered into a service contract with Charter School Specialists, LLC (CSS), to provide fiscal, student data, and Comprehensive Continuous Improvement Planning (CCIP) consulting services.

## NOTE 7 – RELATED PARTY TRANSACTIONS

Article V, Section K of the Charter School Operating Agreement states that if, at fiscal year end, the School has insufficient funds to meet reimbursement obligations to Imagine, that Imagine will forgive unreimbursed start-up and operating advances and consider such advances as contributions. These contributions have been reflected in the financial statements as in-kind contributions and professional services: management fees expenses. For the fiscal year ended June 30, 2007, these contributions and related expenses amounted to $870,863.

## NOTE 8 - DEFINED BENEFIT PENSION PLANS

The Academy has contracted with Imagine (see Note 5) to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately responsible for remitting retirement contributions to the systems noted below:

### A. School Employees Retirement System

Imagine, on behalf of 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 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 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 statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contribution, paid by Imagine, for pension obligations to SERS for fiscal years ended June 30, 2007 and 2006 were $34,338 and $27,330, respectively.

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**B. State Teachers Retirement System**

Imagine, on behalf of 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 or by calling (614) 227-4090, or by visiting the STRS Ohio website 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 times 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 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 years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 contribution for pension obligation to STRS Ohio for the fiscal years ended June 30, 2007 and 2006 were $122,376 and $107,614, respectively, which was paid by Imagine.

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

Imagine on behalf of the Academy provides comprehensive health care benefits to retired teachers and their dependents through the STRS Ohio, and to retired non-certified employees and their dependents through the SERS. Benefits include hospitalization, physicians' fees, prescription drugs and 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 funded on a pay-as-you-go basis.

**NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)**

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 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 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $8,741 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Health Care Stabilization Fund was $4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were $265,558,000 and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. 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, a decrease of .10 percent from 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 2 percent of each employer's SERS Ohio salaries. For the fiscal year 2007, the Academy paid $8,143 to fund health care benefits.

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 year. Expenses for health care for the fiscal year ended June 30, 2007 were $127,615,614. At June 30, 2007, SERS had net assets available for payment of health care benefits of $386.4 million. At June 30, 2007, SERS had 55,818 participants currently receiving health care benefits.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate. The Board currently allocates employer contributions equal to 1.0% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid.

## NOTE 10 - MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2007, Imagine Schools, Inc. and its affiliates incurred the following expenses on behalf of the Academy:

| Expenses | 2007 |
|---|---|
| Direct Expenses: | |
| Salaries and wages | $ 950,343 |
| Employees' benefits | 361,613 |
| Professional and technical services | 2,070,437 |
| Supplies and materials | 133,901 |
| Other direct costs | 81,548 |
| Total expenses | $ 3,597,842 |

Overhead charges are assigned to the Academy based on a percentage of revenue. These charges represent the indirect cost of services in the operation of the Academy. Such services include, but are not limited to, facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

## NOTE 11 - CONTINGENCIES

### A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure 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. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

### B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) School programs violate the State Constitution and state laws. On April 23, 2004, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

### C. Ohio Department of Education Enrollment Review

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (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.

## NOTE 12 - FEDERAL TAX STATUS

The Academy has filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code. In the interim, the Academy has begun the process to file IRS Form 990, "Return of Organization Exempt from Income Tax".

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**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***

Academy of Columbus
Franklin County
4656 Heaton Rd
Columbus, Ohio 43227

We have audited the accompanying financial statements of the business-type activities of the Academy of Columbus, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2007, and have issued our report thereon dated March 31, 2008, wherein we noted the accounting records to support the professional services: management fees and the required note disclosure, maintained by the management company for the fiscal year ended June 30, 2006, were incomplete. 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.

**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 auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion 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 to be a significant deficiency.

A control deficiency 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 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. These items have been identified as items 2007-1 and 2007-2.

## Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. Of the significant deficiencies described above, we consider both to be material weaknesses.

## Compliance and Other Matters

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

We noted certain matters that we reported to management of the Academy in a separate letter dated March 31, 2008.

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

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
March 31, 2008

**Finding 2006-1 – Material Weakness – Management Company's Maintenance of Supporting Documentation**

Ohio Revised Code Section 3314.024 states that a management company providing services to a community school and charging more than twenty percent of the school's annual gross revenues shall provide a detailed accounting, including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the school's regular financial audit. The expenditures included in the footnotes must be for costs directly related to the school and properly supported.

The Academy contracts with Imagine Schools, Inc. (IMAGINE) to provide operating services for the Academy, including administration and educational functions. If a community school remits more than a statutorily determined percentage of its revenues to a management company, the school is required to disclose how such remittances were spent by object by the management company. The management company is also required to provide its supporting documents to the school's auditors for review. In accordance with the Ohio Revised Code, the auditors selected samples of payroll and non-payroll disbursements for review. However, supporting documentation could not be provided by the management company until substantially later than the original request.

Adequately maintaining supporting documentation is a key control to ensuring that the Academy's funds are being spent properly and that recorded accurately and completely. Failure to properly maintain supporting documentation results in an inadequate audit trail.

The agreement between the Academy and IMAGINE states, in regards to financial reporting, that "Such other information as may be reasonably requested by the BOARD to enable its (i) monitoring of IMAGINE's performance and the efficiency of IMAGINE's operation of the Charter School, or (ii) furnishing of reports and information which the BOARD is required to provided pursuant to its Charter or applicable law." The agreement also states that "IMAGINE shall create and keep accurate financial records pertaining to its operation of the Charter school in accordance with the Charter and state and federal law, together with all Charter School financial records prepared by or in possession of IMAGINE, and shall retain all of the said records for a period of five (5) years from the close of the fiscal year to which such books, accounts, and records relate, or such longer period as may be required by law.

The Academy should implement procedures, such as performing periodic internal reviews of supporting documentation, deemed necessary to ensure supporting documentation is maintained adequately and available timely upon request.

*Client Response:*
The Board of Directors will work with the Management Company to develop a procedure so that the Board may periodically confirm the existence of adequate supporting documentation for Management Company expenditures. The Board President shall be responsible for implementing this change by June 30, 2008.

**Finding 2006-2 – Material Weakness – Audit Adjustments**

The auditors identified a material misstatement that should have been prevented or detected by the Academy's internal controls over financing reporting. The following misstatement was identified:

- Unrecorded in-kind contributions from the Academy's management company.

The accompanying financial statements were adjusted to reflect the correction of this material misstatement. The Academy should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

**Finding 2006-2 – Material Weakness – Audit Adjustments (Continued)**

*Client Response:*
This Adjustment was necessary because the Management Company contributed funds to support the Academy's operations in excess of what the School received from state and federal funding sources. These Management Company advances totaled $870,863 . The exact amount of this contribution was not calculated in time for submission to the Auditor of State's Office by the November 2007 deadline. The Board of Directors will work with its Management Company to make sure that any advances are calculated on a timely basis so that the Adjustment can be submitted to the Auditor of State's Office in time to meet the deadline. The Board of Directors will monitor the Management Company's compliance with this requirement.

**ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|---|---|---|---|
| 2006-001 | Material Weakness – Management Company's maintenance of supporting documentation | No | Reissued as 2007-1 |
| 2006-002 | Material Citation - Failure to file annual report with the Auditor of State | Yes | Corrected |

Mary Taylor, CPA
Auditor of State

**ACADEMY OF COLUMBUS**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**MAY 20, 2008**

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