

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA

Auditor of State

Board of Directors
Focus Learning Academy of Southwestern Columbus
7215 Sawmill Road, Suite 50
Dublin, Ohio 43016

We have reviewed the *Independent Accountants' Report* of the Focus Learning Academy of Southwestern Columbus, Franklin County, prepared by Hemphill & Associates, 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 Focus Learning Academy of Southwestern Columbus is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 18, 2008

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**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Focus Learning Academy of Southwestern Columbus
Franklin County
7215 Sawmill Road, Suite #050
Dublin, Ohio 43016

To the Board of Directors:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Focus Learning Academy of Southwestern Columbus, Franklin County, Ohio, as of June 30, 2007, and the 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 January 31, 2008, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**INDEPENDENT ACCOUNTANTS' REPORT
(CONTINUED)**

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Columbus, Ohio
January 31, 2008

Hemphill & Associates



**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued June 1999. Certain comparative information between the current and prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- Total assets decreased \$157,825 in fiscal year 2007.
- Due to a decrease in enrollment, state aid decreased from \$2,217,798 in fiscal year 2006 to \$672,732 in fiscal 2007.
- Grants decreased from \$102,930 in fiscal year 2006 to \$83,298 in fiscal year 2007.
- Similarly, total expenses decreased from \$2,330,605 in fiscal 2006 to \$767,034 in fiscal year 2007.
- Current liabilities decreased \$146,821 with current assets decreasing \$157,825 in fiscal year 2007.
- The School has no long term debt outstanding as of June 30, 2007.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the School did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs, and other factors.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The School uses enterprise presentation for all of its activities.

Table 1 provides a summary of the School's net assets as of June 30, 2007 compared to the prior year.

(Table 1)
Statement of Net Assets

	2007	2006
Assets		
Current Assets	\$ 23,473	\$ 181,298
Liabilities		
Current Liabilities	\$ 18,880	\$ 165,701
Net Assets		
Unrestricted	\$ 4,593	\$ 15,597

Cash and other current assets decreased 87.1% (from \$181,298 in 2006 to \$23,473 in 2007). This is due to decreased enrollment and paying down payables as of June 30, 2007.

Current liabilities decreased 88.6%. Accounts payable decreased from \$165,701 in 2006 to \$18,880 in 2007 as a result of amounts owed to WHLS of Ohio, Inc. (former management company) related to the management agreement for state and federal grants receivable.

Total net assets decreased by \$11,004 (70.6%). This loss is due to decreased enrollment for fiscal year 2007. The school did not have sufficient revenue to offset current administrative cost.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

Table 2 shows Changes in Net Assets for fiscal year 2007 compared with fiscal year 2006.

(Table 2)
Change in Net Assets

	2007	2006
<u>OPERATING REVENUES</u>		
State Aid	\$ 672,732	\$ 2,217,798
<u>NON-OPERATING REVENUES</u>		
Federal and State Grants	83,298	102,930
Total Revenues	\$ 756,030	\$ 2,320,728
<u>OPERATING EXPENSES</u>		
Advertising	242	302
Board Meeting Expense	18,875	22,000
Liability Insurance	10,642	5,657
Other Services	18,547	1,361
Professional Services	6,961	2,227,136
Rent	-	9,000
Management Fees	611,367	-
Grant Programs	80,213	-
Sponsor Fees	20,187	65,149
Total Expenses	767,034	2,330,605
Change in Net Assets	\$ (11,004)	\$ (9,877)

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. Foundation payments made up 89% of revenues for the School in fiscal year 2007. Grant revenues decreased from \$102,930 in fiscal year 2006 to \$83,298 in fiscal year 2007. While full-time equivalent enrollment decreased from 358 students in fiscal year 2006 to 105 students in fiscal year 2007, revenue decreased 69.7%

Budgeting Highlights

Community schools must adopt a spending plan under Ohio Revised Code. Section 5705.391 requires annual appropriations and annual revenues estimates. The contract between the School and its sponsor requires the school to comply with the financial plan that details an estimated budget for each year of the contract.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School had no capital assets. Per the management agreement, all capital assets are owned by Eschool Consultants, LLC.

Debt

At June 30, 2007, the School had no long term debt.

Current Financial Related Activities

The School is in its second year with Eschool Consultants, LLC as its management company. Enrollment as of November 2007 has increased to 217 students. The financial outlook over the next several years shows continued growth as enrollment is projected to increase.

Contacting Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Brian G. Adams, Fiscal Officer for the Focus Learning Academy of Southwestern Columbus, 7215 Sawmill Road, Suite #050, Dublin, Ohio 43016 or e-mail at badams@ocscltd.com.

**FOCUS ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007**

ASSETS	<u>2007</u>
<u>Current Assets</u>	
Cash and Cash Equivalents	\$13,930
Accounts Receivable	115
Intergovernmental Receivable	<u>9,428</u>
Total Assets	<u><u>\$23,473</u></u>
 LIABILITIES	
<u>Current Liabilities</u>	
Accounts Payable	<u>\$18,880</u>
Total Liabilities	<u><u>\$18,880</u></u>
 NET ASSETS	
Restricted for Grants	\$ 3,085
Unrestricted	1,508
Total Net Assets	<u><u>\$ 4,593</u></u>

See Accompanying Notes to Financial Statements

**FOCUS ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007**

Operating Revenues	2007
Foundation	<u>\$ 672,732</u>
Operating Expenses	
Advertising	242
Board Meeting Expense	18,875
Liability Insurance	10,642
Other Services	18,547
Professional Services	6,961
Management Fees	611,367
Grant Programs	80,213
Sponsor Fees	<u>20,187</u>
Total Operating Expenses	<u>767,034</u>
Operating Loss	(94,302)
Non-Operating Revenues	
Federal and State Grants	<u>83,298</u>
Change in Net Assets	(11,004)
Net Assets at Beginning of Year	<u>15,597</u>
Net Assets at End of Year	<u><u>\$ 4,593</u></u>

**FOCUS ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007**

	2007
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash Flow from Operating Activities:	
Cash Received from State Foundation	\$ 616,209
Cash Payments for Goods and Services	(830,465)
Net Cash Used in Operating Activities	(214,256)
Cash Flows from Noncapital Financing Activities:	
Cash Received from State Grants	86,474
Net Cash Provided by Noncapital Financing Activities	86,474
Net (Decrease) Increase in Cash and Cash Equivalents	(127,782)
Cash and Cash Equivalents Beginning of Year	141,712
Cash and Cash Equivalents End of Year	\$ 13,930
Reconciliation of Operating Loss To	
Net Cash Used in Operating Activities:	
Operating Loss	\$ (94,302)
Adjustments To Reconcile Operating Loss To	
Net Cash Used in Operating Activities:	
(Increase) Decrease in Accounts Receivable	(115)
Decrease in Intergovernmental Receivables	22,982
(Decrease) Increase in Accounts Payable	(142,821)
Net Cash Used in Operating Activities	\$ (214,256)

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Focus Learning Academy of Southwestern Columbus (formerly Life Skills Center of Southwestern Columbus) (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with Eschool Consultants, LLC (Eschool) for most functions. (See Note 5.)

The School was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years from May 16, 2000 through June 30, 2005. In April 2005, Buckeye Community Hope Foundation became the sponsor. The School operates under a self-appointing five-member Board of Directors (the Board). The School'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 School has one instructional/support facility, which is leased by Eschool, and provides services to 217 students. Certain members of the Board are also members of the Board of the Focus Learning Academy of Southeastern Columbus (formerly Life Skills Center of Southeastern Columbus), and the Focus Learning Academy of Northern Columbus (formerly Life Skills Center of Northern Columbus).

The Ellendale Group, a state nonprofit organization established pursuant to Ohio Rev. Code Chapter 1702, was originally formed in September 2001 to provide a fostering structure for the provision, development and management of one or more community schools in Franklin County, Ohio, and for any and all lawful purposes for which a corporation may be formed under Chapter 1702 of the Revised Code. The Ellendale Group intended to govern approved contracts for community schools with the following names: the Life Skills Center of Columbus, the Life Skills Center of Southwestern Ohio, and the Life Skills Center of Montgomery County (name to be changed once location of school was determined).

Pursuant to the instruction and requirement of the Ohio Department of Education with respect to the three (3) Life Skills Centers in the Columbus area, and the assignments of each community school contract, a separate nonprofit entity had to be formed to govern each School.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY (continued)

As a result, the Ellendale Group amended its articles of incorporation in June 2002 in order to change the name of the nonprofit to the Life Skills Center of Southeastern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Columbus. A nonprofit was formed May 2002 in the name of the Life Skills Center of Northern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Montgomery County. Also formed in May 2002 was the nonprofit entity the Life Skills Center of Southwestern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Southwestern Ohio.

On June 22, 2006, the Board changed the name to Focus Learning Academy of Southwestern Columbus from Life Skills Center of Southwestern Columbus as a result of the change in management company, which owns the "Life Skills" trade name.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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 School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with GASB pronouncements. The School has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. BASIS OF PRESENTATION

The School'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 School uses enterprise accounting to report on 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 or services.

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 (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Cash Flows reflects how the School 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. 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. Revenues resulting from non-exchange transactions, in which the School 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

Community schools must adopt a spending plan under Ohio Revised Code. Section 5705.391 requires annual appropriations and annual revenues estimates. The contract between the School and its sponsor requires the school to comply with the financial plan that details an estimated budget for each year of the contract.

D. CASH AND CASH EQUIVALENTS

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

E. CAPITAL ASSETS AND DEPRECIATION

The School operates under a management agreement with Eschool, and as such the School has no capital assets. (See Note 5.)

F. INTERGOVERNMENTAL REVENUES

The School 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 \$672,732.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 school must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. The School received \$7,400 in state grants during fiscal year 2007.

The School also participates in the Comprehensive Continuous Improvement Planning Program through the Ohio Department of Education. Under this program, the School was awarded \$75,898 during the year ended June 30, 2007.

G. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. 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 School or through external restrictions imposed by creditors, grantors, or contracts. The School's statement of net assets reported \$1,508 in restricted net assets as of June 30, 2007.

I. USE OF ESTIMATES

In preparing the 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.

3. DEPOSITS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No. 40, "Deposit, and Investment Risk Disclosures".

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

3. DEPOSITS (continued)

The School maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2007, the book amount of the School's deposits was \$13,930. The bank balance of the School's deposits was \$20,200, which resulted in \$0 being collateralized with securities held in a single financial institution's pool of investments pledged to collateralize all public deposits.

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the school or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured.

4. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with Eschool, Eschool has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (See Note 5.)

Director and Officer - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and no deductible.

Worker's Compensation - Eschool is responsible for paying the State Workers Compensation System a premium for employee injury coverage.

5. AGREEMENT WITH ESCHOOL

Effective July 1, 2006, the School entered into a three-year Management Agreement (Agreement) with Eschool which is an educational consulting and management company. The agreement's termination date is June 30, 2009. Eschool is responsible and accountable to the Board for the administration, operation, and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. The School had purchased service expenses for the year ended June 30, 2007 to Eschool of \$691,580. Significant provisions of the Agreement are as follows:

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

5. AGREEMENT WITH ESCHOOL (continued)

Management, Consulting, and Operation Fee: The School is required to pay Eschool a monthly continuing fee of 93% of the School's "*Qualified Gross Revenues*", defined in the Agreement as, "...all educational revenues received from the federal, state, and/or local government...does not include student fees, contributions and PTA/PTO income and miscellaneous revenue received...also does not include any state or federal funding that is meant to be a dollar for dollar reimbursement for expenditures made by the company" and "shall be paid 100% of all contributions and grants not specifically referenced above received by the Non Profit as a result of the company's efforts." The continuing fee is paid to Eschool based on the previous month's qualified gross revenues.

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

Eschool Financial Responsibilities: Except as otherwise provided in the Agreement, all costs incurred in providing the educational program at the School are to be paid by Eschool. 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 School is the property of Eschool, unless purchased directly by the School with Federal funds.

Eschool is required to maintain, at Eschool's expense, commercial general liability insurance in the name of the School 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: Eschool 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 School is paid by Eschool. If Eschool fails to pay this compensation, the School, in its sole discretion, may pay such compensation and offset the amount by withholding an equal amount from the fees owed to Eschool under the Agreement.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

5. AGREEMENT WITH ESCHOOL (continued)

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

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

6. DEFINED BENEFIT PENSION PLANS

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

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

Eschool, on behalf of the School, 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10% of their annual covered salary and Eschool (on behalf of the School) is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.58% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.57% 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 School's required contribution for pension obligations to SERS for the years ended June 30, 2007 and 2006 were \$0 as the management company has financial responsibility for these payments.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

6. DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM

Eschool, on behalf of the School, contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is 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, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 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 Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS Ohio funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5% 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 fifty (50) and termination of employment.

The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP 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% of their annual covered salary. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

6. DEFINED BENEFIT PENSION PLANS (continued)

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contribution for pension obligations to the DBP for the fiscal years ended June 30, 2007 and 2006 were \$-0- as Eschool has financial responsibility for these payments.

7. POST-EMPLOYMENT BENEFITS

Eschool, on behalf of the School, provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and 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.

STRS 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. 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 funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$-0- for fiscal year 2007 as Eschool has financial responsibility for these payments.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and had 119,184 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% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.42% of covered payroll.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

7. POST-EMPLOYMENT BENEFITS (continued)

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay of \$35,800 and the member's pay. However, the surcharge is capped at 2% of each employee's salary. For the School, the amount contributed to fund health benefits during fiscal year 2007 was \$-0- as Eschool has financial responsibility for these payments. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the assets target level for the health care fund. The target level for the health care fund is 150% of projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. The number of participants eligible to receive benefit is 59,492.

8. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2007, Eschool and its affiliates incurred the following expenses on behalf of the School.

	<u>2007</u>
Salaries & wages	\$ 228,773
Employees' benefits	41,818
Professional & technical services	878
Property services	74,865
Travel	3,160
Communications	17,373
Utilities	389
Contracted craft or trade services	8,850
Books, periodicals, & films	1,851
Other supplies	58,236
Depreciation	-
Interest	-
Other direct costs	16,980
Indirect Expenses:	
Overhead	158,194
Total Expenses	<u>\$ 611,367</u>

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

8. MANAGEMENT COMPANY EXPENSES (continued)

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.

9. CONTINGENCIES

A. GRANTS

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

B. PENDING LITIGATION

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

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and state laws. On April 21, 2003, 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, 2006, 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 Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2006. Oral arguments occurred November 29, 2006. The effect of this suit, if any, on the School is not presently determinable.

**FOCUS LEARNING ACADEMY OF SOUTHWESTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

9. CONTINGENCIES (continued)

C. FULL TIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year ended 2007, ODE's final FTE adjustment for the School resulted in the discovery of an underpayment to the School in the amount of \$2,371. This amount has been recorded as intergovernmental receivable in the financial statements. Under the terms of the management agreement with Eschool (Note 5), a related accounts payable in the amount of \$2,205 has been recorded by the School for 93% for the amount due to Eschool.

10. FEDERAL TAX STATUS

On November 30, 2006, the School began the process of filing for tax exempt status under section 501(c)(3) of the Internal Revenue Code. In the interim, the School has begun the process of filing IRS Form 990, "Return of Organization Exempt from Income Tax".

11. RELATED PARTY TRANSACTIONS AND SPONSORSHIP FEES

The School contracts with Buckeye Community Hope Foundation (BCHF) to be its sponsor (beginning April 2005).

The contracts states "...the annual sponsorship fee to be paid to Buckeye Community Hope Foundation is set at 3% of the State's annual School Foundation support..." The sponsor is to provide oversight, monitoring, and technical assistance for the School.

The transactions with BCHF are considered related party transactions. Mr. Barno is the Board Secretary and is employed full time by Buckeye Community Hope Foundation. Per review of the School's contract with Buckeye Community Hope Foundation, this relationship is allowed.



**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***

Focus Learning Academy of Southwestern Columbus
Franklin County
7215 Sawmill Rd. Suite #050
Dublin, Ohio 43016

To the Board of Directors:

We have audited the financial statements of Focus Learning Academy of Southwestern Columbus as of and for the year ended June 30, 2007, and have issued our report thereon dated January 31, 2008. 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 Focus Learning Academy of Southwestern Columbus'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 Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 entity's internal control.



**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*
(continued)**

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Focus Learning Academy of Southwestern Columbus'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*.

This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We noted certain matters that we reported to management of Focus Learning Academy of Southwestern Columbus in a separate letter dated January 31, 2008.

Columbus, Ohio
January 31, 2008

A handwritten signature in blue ink that reads "Hemphill & Associates". The signature is written in a cursive style.



Mary Taylor, CPA
Auditor of State

FOCUS LEARNING ACADEMY OF SOUTHWESTERN 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
APRIL 1, 2008**