

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

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Focus Learning Academy of Southeastern Columbus, Franklin County, prepared by Hemphill & Associates, for the audit period July 1, 2005 through June 30, 2006. 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 Southeastern Columbus is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 7, 2007

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

TABLE OF CONTENTS

Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets.....	8
Statement of Cash Flows.....	9
Notes to the Basic Financial Statements	10
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23

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INDEPENDENT ACCOUNTANTS' REPORT

Focus Learning Academy of Southeastern 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 Southeastern Columbus, Franklin County, Ohio (the School), as of and for the year ended June 30, 2006 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 Southeastern Columbus, Franklin County, Ohio, as of June 30, 2006, 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 May 30, 2007, 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
May 30, 2007

Hemphill & Associates



**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

Management's discussion and analysis of Focus Learning Academy of Southeastern Columbus (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2006. Readers should also review the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- Total net assets decreased \$7,381 in fiscal year 2006.
- Due to a decrease in enrollment, foundation revenue decreased from \$3,587,557 in fiscal year 2005 to \$2,628,128 in fiscal year 2006.
- Revenue from federal and state grants decreased from \$403,609 in fiscal year 2005 to \$114,041 in fiscal year 2006.
- Similarly, total expenses decreased from \$3,947,135 in fiscal 2005 to \$2,749,550 in fiscal year 2006.
- Current liabilities increased \$34,034 and current assets increased \$26,653 in fiscal year 2006.
- The School had no long-term debt outstanding as of June 30, 2006.

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 2006. 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 account all of the current year's revenues and expenses regardless of when cash is received or paid.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

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. 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, 2006 compared to the prior year.

(Table 1)
Statement of Net Assets

	2006	2005
Assets		
Current Assets	\$ 242,471	\$ 215,818
Liabilities		
Current Liabilities	\$ 204,221	\$ 170,187
Net Assets		
Unrestricted	\$ 38,250	\$ 45,631

Cash and other current assets increased 12.3% (from \$215,818 in 2005 to \$242,471 in 2006). This is due to the withholding of the June payment to WHLS of Ohio until all final contractual issues had been resolved.

Current liabilities increased 20%. Accounts payable increased from \$53,443 in 2005 to \$185,375 in 2006 as a result of amounts owed to WHLS of Ohio, Inc. related to the management agreement for state and federal grants receivable. However, intergovernmental payables decreased to \$18,846 in 2006 from \$116,744 in 2005 as a result of the full-time equivalency adjustment from ODE.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

Total net assets decreased by \$7,381 (16.2%). This loss is because 100% of revenues were being paid out in the form of management fees and sponsor fees. The management company was paid 97% of state aid and 100% of all other grants. The School paid sponsor fees of 3%. Thus all other expenditures for the Board were paid from net assets.

Table 2 shows Changes in Net Assets for fiscal year 2006 compared to fiscal year 2005.

(Table 2)
Change in Net Assets

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Foundation	\$ 2,628,128	\$ 3,587,557
<u>NON-OPERATING REVENUES</u>		
Federal and State Grants	114,041	403,609
Total Revenues	<u>2,742,169</u>	<u>3,991,166</u>
<u>OPERATING EXPENSES</u>		
Advertising	302	97
Board Meeting Expense	22,000	11,150
Liability Insurance	4,750	4,837
Other Services	1,200	11,510
Professional Services	2,633,755	3,877,957
Rent	9,000	9,000
Sponsor Fees	78,543	32,530
<u>NON-OPERATING EXPENSES</u>		
Income Tax Expense	-	54
Total Expenses	<u>2,749,550</u>	<u>3,947,135</u>
Change in Net Assets	<u>\$ (7,381)</u>	<u>\$ 44,031</u>

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 96% of revenues for the School in fiscal year 2006. Grant revenues decreased substantially due to the discontinuation of federal startup funding. The reduction in funding and expenses corresponds to the reduction enrollment. Grants decreased from \$403,609 in fiscal year 2005 to \$114,041 in fiscal year 2006. Full-time equivalent enrollment decreased from 509 students in fiscal year 2005 to 372 students in fiscal year 2006.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

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.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School had no capital assets. Per the management agreement, all capital assets are owned by WHLS of Ohio, LLC (dba LS Southeastern LLC).

Debt

At June 30, 2006, the School had no long-term debt.

Current Financial Related Activities

The School terminated its agreement WHLS of Ohio, LLC effective June 30, 2006. As a result, the school changed its name to Focus Learning Academy of Southeastern Columbus as WHLS of Ohio, LLC owns the trade name of Life Skills Center of Southeastern Columbus. Also, it has hired Eschool Consultants, LLC as its new management company. Future fees to be paid to Eschool Consultants will be at 93% of state aid. This will allow the Board to retain 4% of state aid to meet its obligations. The school expects enrollment to decrease during fiscal year 2007 due to the name change and from competition from its former management company. After 2007, 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 Southeastern Columbus, 7215 Sawmill Rd, Suite #50, Dublin, Ohio 43016 or e-mail at badams@ocscltd.com.

**FOCUS ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006**

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$207,588
Intergovernmental Receivable	<u>34,883</u>
Total Assets	<u><u>\$242,471</u></u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$185,375
Intergovernmental Payable	<u>18,846</u>
Total Liabilities	<u><u>204,221</u></u>

NET ASSETS

Unrestricted	38,250
Total Net Assets	<u><u>\$ 38,250</u></u>

**FOCUS ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Operating Revenues	
Foundation	<u>\$2,628,128</u>
Operating Expenses	
Advertising	302
Board Meeting Expense	22,000
Liability Insurance	4,750
Other Services	1,200
Professional Services	2,633,755
Rent	9,000
Sponsor Fees	<u>78,543</u>
Total Operating Expenses	<u>2,749,550</u>
Operating Income (Loss)	(121,422)
Non-Operating Revenues (Expenses)	
Federal and State Grants	<u>114,041</u>
Change in Net Assets	(7,381)
Net Assets Beginning of Year	<u>45,631</u>
Net Assets End of Year	<u><u>\$ 38,250</u></u>

See Accompanying Notes to Financial Statements

**FOCUS ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities

Cash Received from State	\$2,392,190
Cash Payments for Goods and Services	<u>(2,355,831)</u>
Net Cash Provided by Operating Activities	36,359

Cash Flows from Noncapital Financing Activities

Cash Received from State Grants	9,450
Cash Received from Federal Grants	114,741
Cash Payments for Noncapital Financing Activities	<u>(10,150)</u>
Net Cash Provided by Noncapital Financing Activities	<u>114,041</u>

Net Increase (Decrease) in Cash and Cash Equivalents 150,400

Cash and Cash Equivalents at Beginning of Year 57,188

Cash and Cash Equivalents at End of Year **\$ 207,588**

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating Loss (121,422)

Adjustments To Reconcile Operating Loss To

Net Cash Provided by Operating Activities:

Decrease in Accounts Receivable	113,971
Decrease in Intergovernmental Receivable	9,776
Increase in Accounts Payable	131,932
Decrease in Intergovernmental Payable	<u>(97,898)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 36,359</u></u>

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Focus Learning Academy of Southeastern Columbus (formerly Life Skills Center of Southeastern 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 White Hat Life Skills (WHLS) of Ohio, LLC (dba LS Southeastern LLC) 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 WHLS. The facility is staffed with teaching personnel employed by WHLS, who provide services to 372 students. Certain members of the Board are also members of the Board of the Focus Learning Academy of Southwestern Columbus (formerly Life Skills Center of Southwestern Columbus), the Focus Learning Academy of Southeastern Columbus (formerly Life Skills Center of Northern Columbus), and the YouthBuild Columbus Community School.

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 Southeastern 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 SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 Southeastern 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 Southeastern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Southeastern Ohio.

On June 22, 2006, the Board changed the name to Focus Learning Academy of Southeastern Columbus from Life Skills Center of Southeastern Columbus as the results 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's significant 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. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

“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 2006.

E. CAPITAL ASSETS AND DEPRECIATION

The School operates under a management agreement with WHLS, 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 revenue. Amounts awarded under the above programs for the 2006 school year totaled \$2,628,128.

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 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 \$7,100 in state grants during fiscal year 2006.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School also participates in the Comprehensive Continuous Improvement Planning Program through the Ohio Department of Education. Under this program, the School was awarded \$106,941 during the year ended June 30, 2006.

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 revenues.

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 laws or regulations of other governments. The School statement of net assets reports \$-0- in restricted net assets as of fiscal year end 2006.

I. USE OF ESTIMATES

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

3. DEPOSITS AND INVESTMENTS

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".

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, 2006, the book amount of the School's deposits was \$207,588. The bank balance of the School's deposits was \$207,588, which resulted in \$107,588 being collateralized with securities held in a single financial institution's pool of investments pledged to collateralize

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

3. DEPOSITS AND INVESTMENTS (CONTINUED)

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 WHLS, WHLS 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 - WHLS is responsible for paying the State Workers Compensation System a premium for employee injury coverage.

5. AGREEMENT WITH WHLS (dba LS SOUTHEASTERN LLC)

Effective January 27, 2004, the School entered into a three-year Management Agreement (Agreement) with WHLS, which is an educational consulting and management company. The agreement's termination date is June 30, 2006. WHLS 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, 2006 to WHLS of \$2,420,091. Significant provisions of the Agreement are as follows:

Management, Consulting, and Operation Fees: The School is required to pay WHLS a monthly continuing fee of 97% 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 WHLS based on the previous month's qualified gross revenues.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

5. AGREEMENT WITH WHLS (dba LS SOUTHEASTERN LLC) (CONTINUED)

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.

WHLS 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 WHLS. 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 WHLS, unless purchased directly by the School with Federal funds.

WHLS is required to maintain, at WHLS' 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: WHLS 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 WHLS. If WHLS 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 WHLS under the Agreement.

Termination by the School: The School may terminate the Agreement in the event WHLS materially breaches the Agreement or the Contract and WHLS 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 the WHLS shall promptly undertake and continue efforts to cure said material breach within a reasonable time.

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

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

6. PROFESSIONAL SERVICES CONTRACT

The School contracts with Youth Over Us, Inc., a nonprofit corporation, to provide office facilities space and professional services relating to financial record keeping, audit preparation and grants research. Monthly services are billed as follows:

<u>Description</u>	<u>Amount</u>
Office Rental Space	\$ 750
Office Support	100
Bookkeeping	1,000
Grants Research	250
Total	<u>\$ 2,100</u>

During fiscal year 2006, \$25,200 was paid to Youth Over Us, Inc for services provided.

7. DEFINED BENEFIT PENSION PLANS

The School has contracted with WHLS (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

WHLS of Ohio, LLC, 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 WHLS (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 2006, 10.58% of annual covered salary was the portion used to fund pension obligations.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contribution for pension for fiscal years ended June 30, 2006, 2005 and 2004 were \$-0- as WHLS has financial responsibility for these payments.

B. STATE TEACHERS RETIREMENT SYSTEM

WHLS of Ohio, LLC, 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 fund 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.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

For the fiscal year ended June 30, 2006, 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. 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, 2006, 2005 and 2004 were \$-0- as WHLS has financial responsibility for these payments.

8. POST-EMPLOYMENT BENEFITS

WHLS of Ohio LLC, 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, 2006, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For fiscal year 2006, this amount was \$-0- as WHLS has financial responsibility for these payments.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and had 115,395 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.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

8. POST-EMPLOYMENT BENEFITS (CONTINUED)

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, 2006, employer contributions to fund health care benefits were 3.43% of covered payroll. 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 2006 was \$-0- as WHLS 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.

Net health care costs for the year ending June 30, 2005 (the latest information available) were \$178,221,113. The target level for the health care fund is 150% of projected claims less premium contributions for the next fiscal year. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. The number of participants eligible to receive benefit is 58,123.

9. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2006, White Hat Ventures, LLC and its affiliates incurred the following expenses on behalf of the School.

	<u>2006</u>
Direct Expenses:	
Salaries & wages	\$ 774,279
Employees' benefits	174,127
Professional & technical services	248,661
Property services	266,596
Travel	10,871
Communications	37,299
Utilities	38,598
Books, periodicals, & films	1,720
Food & related supplies	-
Other supplies	111,108
Depreciation	151,470
Interest	-
Other direct costs	248,341
Indirect Expenses:	
Overhead	534,048
Total Expenses	<u>\$ 2,597,118</u>

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

9. MANAGEMENT COMPANY EXPENSES (CONTINUED)

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. 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.

10. 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.

C. FULL-TIME EQUIVALENCY

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) 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 2006, ODE's final FTE adjustment for the School resulted in the discovery of an overpayment to the School in the amount of \$18,846. This amount has been recorded as intergovernmental payable in the financial statements.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

11. FEDERAL TAX STATUS

On November 30, 2005, 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 to file IRS Form 990, "Return of Organization Exempt from Income Tax".

12. RELATED PARTY TRANSACTIONS AND SPONSORSHIP FEES

The transactions with Youth Over Us described in Note 6 are related party transactions. The School contracts with Buckeye Community Hope Foundation (BCHF) to be its sponsor. Mr. Barno is the Board Secretary and is employed full-time by Buckeye Community Hope Foundation. Mr. English is employed full-time by Buckeye Community Hope Foundation while serving as the Treasurer of the Board of the Focus Learning Academy of Northern, Southeastern, and Southwestern Columbus. Per the School's contract with Buckeye Community Hope Foundation, these relationships are allowed. The contract 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.

13. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2006, the Academy has implemented GASB Statement No.42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*", GASB Statement No 46, "*Net Assets Restricted by Enabling Legislation*", and GASB Statement No. 47, "*Accounting for Termination Benefits*".

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the Academy financial statements for fiscal year 2006.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the Academy's financial statements for fiscal year 2006.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

13. CHANGE IN ACCOUNTING PRINCIPLES (CONTINUED)

GASB Statement No. 47 establishes accounting and financial standards for termination benefits. This statement clarifies and established reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the Academy's financial statements for fiscal year 2006.

14. SUBSEQUENT EVENTS

The School terminated its agreement with WHLS of Ohio, LLC effective June 30, 2006. In connection with the final settlement agreement between the School and WHLS, both parties agreed to settle all outstanding obligations of the school to WHLS. The total amount due to WHLS (net of credits) was \$181,908. This amount, which was paid subsequent to June 30, 2006, is included in the Accounts Payable balance on the Statement of Net Assets. Additionally, as a result of this termination, the school changed its name to Focus Learning Academy of Southeastern Columbus as WHLS of Ohio, LLC owns the trade name of Life Skills Center of Southeastern Columbus.

Also, the School has hired Eschool Consultants, LLC as its new management company. The services provided by Eschool Consultants will be the same as WHLS of Ohio, LLC as described in Note 5. Future fees to be paid to Eschool Consultants will be at 93% of state aid. This will allow the Board to retain 4% of state aid to meet its obligations.

The School also terminated its agreement with Youth Over Us, Inc. (see Note 6). It has hired Ohio Community School Consultants, Ltd. to provide school treasurer services.

During fiscal year 2007, the Ohio Legislature passed H.B. 79, which modified certain provisions of the charter school statute. Most notable among these provisions was the language that limited Board members from sitting on more than two school Boards. As of March 26, 2007, Board members who sat on more than two boards (see Note 1) have resigned in order to come into compliance with the statute.



**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 Southeastern 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 Southeastern Columbus as of and for the year ended June 30, 2006, and have issued our report thereon dated May 30, 2007. 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 Southeastern 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 Southeastern 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, others within the organization and federal awarding agencies and pass-through entities 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 Southeastern Columbus in a separate letter dated May 30, 2007.

Columbus, Ohio
May 30, 2007

A handwritten signature in blue ink that reads 'Hemphill & Associates'.



Mary Taylor, CPA
Auditor of State

FOCUS LEARNING ACADEMY OF SOUTHEASTERN 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
SEPTEMBER 20, 2007**