FCI ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

FCI ACADEMY
FRANKLIN COUNTY

TABLE OF CONTENTS

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

FCI Academy
Franklin County
2177 Mock Road
Columbus, Ohio 43219

To the Board of Directors:

We have audited the accompanying basic financial statements of the FCI Academy, Franklin County, Ohio (the Academy), 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 Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FCI Academy, Franklin County, Ohio, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the fiscal year ended June 30, 2006, the Academy restated July 1, 2005 net assets due to implementing a threshold amount for capitalizing assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 13, 2007

FCI ACADEMY
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR JUNE 30, 2006
UNAUDITED

The discussion and analysis of FCI Academy, Inc. (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were $397,028.
- Total Liabilities were $308,341.
- Change in Net Assets was 239,095.

Using this Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during fiscal year 2006?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets at June 30, 2006 compared to fiscal year 2005:

(Table 1)
Net Assets

	2006	2005
Assets		
Current Assets	$ 290,568	$ 40,617
Capital Assets, Net	106,460	38,031
Total Assets	397,028	78,648
Liabilities		
Current Liabilities	308,341	163,466
Noncurrent Liabilities	-	65,590
Total Liabilities	308,341	229,056
Net Assets		
Invested In Capital Assets, Net of Related Debt	103,534	17,180
Restricted	30,547	-
Unrestricted	(45,394)	(167,588)
Total Net Assets	$ 88,687	$ (150,408)

A review of the above table demonstrates significant changes from the prior fiscal year. Current Assets related to Intergovernmental Receivable increased due to increased grant awards over prior year grants. Current liabilities increased related to accounts payable and accrued wages. Accounts payable increased as a result of the increase in financial activity from the expansion of the Academy. Also, accrued wages increased as a result of the addition of teachers due to the expansion of the Academy.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the fiscal year compared to fiscal year 2005:

Table 2
Change in Net Assets

	2006	2005
Operating Revenue		
Foundation Basic Aid	$ 1,530,469	$ 354,766
Poverty-Based Assistance	43,422	-
Disadvantaged Pupil Impact Aid	-	6,778
Special Education	68,488	14,482
Food Services	11,391	2,980
Other	25,021	22,681
Total Operating Revenues	1,678,791	401,687
Operating Expenses		
Salaries	876,850	284,818
Fringe Benefits	158,917	71,686
Purchased Services	647,761	113,586
Materials and Supplies	273,777	105,080
Cost of Sales	53,246	10,437
Depreciation Expense	13,950	4,715
Other	15,855	4,980
Total Operating Expenses	2,040,356	595,302
Non-Operating Revenues and (Expenses)		
Operating Grants	598,553	48,791
Contributions and Donations	7,525	350
Interest Income	3	9
Interest and Fiscal Charges	(5,421)	(5,943)
Total Non-Operating Revenues and (Expenses)	600,660	43,207
Increase/(Decrease) in Net Assets	$ 239,095	$ (150,408)

State Foundation Basic Aid, Poverty-Based Assistance, and Special Education, as a whole, are the primary support for the Academy, representing 97.8 percent of the operating revenue. Salaries and Fringe Benefits comprise 51 percent of operating expenses.

The Academy had total revenues of $2,284,872, and total expenses of $2,045,777. The change in net assets for the year was an increase of $239,095. This increase shows the Academy is meeting its obligations.

Capital Assets

At the end of fiscal year June 30, 2006, the Academy had $106,460 (net of $18,665 in accumulated depreciation) invested in capital assets. Table 3 shows balances at June 30, 2006 compared to fiscal year 2005:

Table 3
Capital Assets at June 30
(Net of Depreciation)

	2006	2005
Equipment	$ 81,979	$ 7,066
Leasehold Improvments	24,481	30,965
Totals	$ 106,460	$ 38,031

For more information on capital assets, see note 5 to the basic financial statements.

Debt:

At June 30, 2006 the Academy had $23,985 in a Note Payable, all of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt, Fiscal Year End

	2006
Miracit Development Corporation Note 5.25%, Issued 12/30/04, Matures 1/15/07	$ 23,985

Current Financial Issues

The inclusion of the Lucas County Educational Service Center as the Academy's fiscal agent greatly improves its internal control structure and the quality of its financial records. During the fiscal year ended June 30, 2006, there were approximately 270 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for this fiscal year amounted to $5,283 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Sharon Francis, Business Manager, 2177 Mock Road, Columbus, Ohio or e-mail at safrancis@miracit.org.

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FCI ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 98,381
Intergovernmental Receivables	192,187
Total Current Assets	290,568
Noncurrent Assets:	
Capital Assets, Net	106,460
Total Noncurrent Assets	106,460
Total Assets	397,028
Liabilities:	
Current Liabilities:	
Accounts Payable	133,236
Accrued Wages and Benefits Payable	109,697
Intergovernmental Payable	41,423
Note Payable	23,985
Total Current Liabilities	308,341
Total Liabilities	308,341
Net Assets:	
Invested in Capital Assets, Net of Related Debt	103,534
Restricted	30,547
Unrestricted	(45,394)
Total Net Assets	$ 88,687

See Accompanying Notes to the Basic Financial Statements

FCI ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating Revenues:		
Foundation Basic Aid	$	1,530,469
Poverty-Base Assistance		43,422
Special Education		68,488
Food Service		11,391
Other Operating Revenue		25,021
Total Operating Revenues		1,678,791
Operating Expenses:		
Salaries		876,850
Fringe Benefits		158,917
Purchased Services		647,761
Materials and Supplies		273,777
Cost of Sales		53,246
Depreciation		13,950
Other Operating Expenses		15,855
Total Operating Expenses		2,040,356
Operating Loss		(361,565)
Non-Operating Revenues and Expenses:		
Operating Grants		598,553
Contributions and Donations		7,525
Interest Income		3
Interest and Fiscal Expense		(5,421)
Total Non-Operating Revenues and (Expenses)		600,660
Change in Net Assets		239,095
Net Assets at Beginning of Year		(150,408)
Net Assets at End of Year	$	88,687

See Accompanying Notes to the Basic Financial Statements

FCI ACADEMY
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 of Ohio	$ 1,642,379
Cash Received from Food Service	11,391
Cash Received from Other Operating Sources	25,021
Cash Payments to Suppliers for Goods and Services	(876,854)
Cash Payments to Employees for Services	(794,539)
Cash Payments for Employee Benefits	(138,860)
Cash Payments for Other Operating Uses	(15,756)
Net Cash Used for Operating Activities	(147,218)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants-Federal	430,676
Cash Received from Operating Grants-State	4,924
Cash Received from Contributions and Donations	7,525
Net Cash Provided by Noncapital Financing Activities	443,125
Cash Flows from Capital and Related Financing Activities:	
Cash Received from Proceeds from the sale of notes	8,000
Cash Payments for Capital Acquisitions	(54,444)
Cash Payments for Principal	(154,928)
Cash Payments for Interest and Fiscal Charges	(5,421)
Net Cash Used for Capital and Related Financing Activities	(206,793)
Cash Flows from Investing Activities:	
Cash Received from Interest	3
Net Cash Provided by Investing Activities	3
Net Increase in Cash and Cash Equivalents	89,117
Cash and Cash Equivalents at Beginning of Year	9,264
Cash and Cash Equivalents at End of Year	$ 98,381

FCI ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	Amounts
Operating Loss	$ (361,565)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	13,950
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	2,119
Increase in Accounts Payable	96,722
Increase in Accrued Wages	82,311
Increase in Intergovernmental Payable	19,245
Total Adjustments	214,347
Net Cash Used for Operating Activities	$ (147,218)

See Accompanying Notes to the Basic Financial Statements

1. DESCRIPTION OF THE REPORTING ENTITY

FCI Academy, Inc. (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to provide an orderly and supportive environment whereby students experience preparation for college, career and life. The Academy operates on a foundation which fosters character building for all students, parents, and staff members. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing September 20, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of the Sponsor shall serve as the Chief Fiscal Officer of the Academy (See Note 10).

The Academy operates under the direction of a seven member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's instructional/support facilities staffed by 18 non-certificated, 21 certificated full time teaching personnel who provide services to 270 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before August 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the Academy finances and meets its cash flow needs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name.

For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Basic Aid Program, Poverty-Based Assistance, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of $1,500. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Equipment	5
Leasehold Improvements	5-15

H. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets, net of Related Debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy's restricted net assets include federal grants restricted to expenditure for specified purposes. The Academy first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Academy did not have any net assets restricted by enabling legislation at fiscal year end.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

3. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principle

During the fiscal year ended June 30, 2006, the Academy implemented a threshold amount for capitalizing assets of $1,500.

B. Restatement of Net Assets

The restatement due to the implementation of the above capitalization threshold had the following effect on July 1, 2005 net assets of the Academy as they were previously reported.

Net Assets July 1 , 2005	$ (103,023)
Capitalization Threshold Adjustment:	
Capital Assets	(47,385)
Adjusted Net Assets July 1, 2005	$ (150,408)

4. DEPOSITS

At June 30, 2006, the carrying amount of the Academy's deposits was $98,381 and the bank balance was $126,878. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, $100,418 was covered by the Federal Depository Insurance Corporation and $26,460 was protected by a collateral pool of eligible securities deposited with a qualified trustee and exposed to custodial credit risk.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy had no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy 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 and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 06/30/2005	Additions	Deductions	Balance 06/30/2006
Capital Assets:				
Equipment	7,999	82,379		90,378
Leasehold Improvements	34,747	-	-	34,747
Totals Capital Assets	42,746	82,379	-	125,125
Less Accumulated Depreciation:				
Equipment	(933)	(7,466)		(8,399)
Leasehold Improvements	(3,782)	(6,484)	-	(10,266)
Total Accumulated Depreciation	(4,715)	(13,950)	-	(18,665)
Capital Assets, Net	$ 38,031	$ 68,429	$ -	$ 106,460

6. OPERATING LEASES

The Academy has an operating lease for the period July 1, 2004 through June 30, 2009 with Living Faith Apostolic Church to lease a school facility. The Base rental of the lease is zero dollars. However, monthly payments are required of $14,625 as a pro rate share of the annual operating costs and overhead of the Main Campus building based on an amendment dated September 26, 2005. Payments in the amount of $157,007 were paid during fiscal year 2006. The annual amount is to be re-determined after each 12-month period based upon the operating cost of the facilities.

The Academy has an operating lease for the period November 1, 2005 through June 30, 2010 with MiraCit Development Corporation to lease a school facility. The Base rental of the lease is zero dollars. However, monthly payments are required of $20,324 as a pro rate share of the annual operating costs and overhead of the North Campus and Annex. Payments in the amount of $172,592 were paid during fiscal year 2006.

The following minimum lease payments will be made for fiscal year ending:

Fiscal Year Ending June 30,	Living Faith Church	Miracit Corporation
2007	$ 175,510	$ 243,888
2008	175,510	243,888
2009	175,510	243,888
2010	-	243,888
Totals	$ 526,530	$ 975,552

7. DEBT

Debt activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 06/30/2005	Issued	Redeemed	Balance 06/30/2006	Due Within One Year
Note Payable:					
Miracit Development Corporation					
5.25% Issued 12/30/04					
Matures 1/15/07	$ 170,913	$ -	$ 146,928	$ 23,985	$ 23,985
Living Faith Apostolic Church					
0.00% Issued 7/1/05					
Matured 7/19/05	-	8,000	8,000	-	-
Totals	$ 170,913	$ 8,000	$ 154,928	$ 23,985	$ 23,985

The above note payables represent operating loans for the start up of the Academy.

8. RISK MANAGEMENT

A. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2006, the Academy contracted for the following insurance coverage:

Coverage Provided by Guide One Mutual Insurance Company:

General Liability:

Each Occurrence	$1,000,000
Aggregate	$3,000,000

Settled claims have not exceeded this commercial coverage in any of the last two years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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 43215-3476.

For the fiscal year June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The employer rate for fiscal year ending June 30, 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2006 and 2005 was $37,277 and $16,753; 46.7 percent has been contributed for fiscal year June 30, 2006 and 100% for fiscal year 2005. $18,413 representing the unpaid contribution for fiscal year ended 2006 is recorded as an intergovernmental payable.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

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

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

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

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The Academy's required contribution for pension obligations for the fiscal years June 30, 2006 and 2005 was $69,196 and $16,423; 69.2 percent has been contributed for fiscal year June 30, 2006 and 100% has been contributed for fiscal year 2005. $21,352 representing the unpaid contribution for fiscal year 2006 is reflected as an intergovernmental payable.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2006 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2006 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

10. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

10. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2006, the healthcare allocation is 3.42 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. 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 reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168% of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of recipients currently receiving health care benefits is approximately 58,123.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year 2006, the Board allocated employer contributions equal to 3.42 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the Academy, the amount to fund health care benefits, including surcharge, equaled $19,097 for the fiscal year 2006.

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Health care benefits are financed on a pay-as-you-go basis. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Stabilization Fund was $3.3 billion as of June 30, 2005 (the latest information available). For the Academy, this amount equaled $5,323 for the fiscal year ended June 30, 2006.

10. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2005 (the latest information available) net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

11. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center (the Sponsor) to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Sponsor two percent (2%) of the per pupil allotment paid to the Academy from the State of Ohio. Total contract payments of $37,062 were paid during the year.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and

12. PURCHASED SERVICES

For the fiscal year June 30, 2006, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Service	$ 195,031
Property Services	400,412
Travel	23,358
Communications	28,759
Pupil Transportation	201
Total Purchased Services	$ 647,761

13. CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

B. School Funding

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of the fiscal year 2006 review revealed no material adjustment to the Academy's school funding.

C. Litigation

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

14. RELATED PARTY TRANSACTIONS

The Academy operates within the Living Faith Apostolic Church (LFAC). Certain personnel of MiraCit Development Corporation, a non-profit community development organization established by LFAC, serve as management of the Academy.

During fiscal year 2006, the Academy reimbursed LFAC $157,007 and MiraCit Development Corp $172,592 for the Academy's portion of operating costs. The Academy also entered into notes payable with these parties to repay such amounts. At June 30, 2006, $23,985 was unpaid and reflected as notes payable in the accompanying financial statements.

The Academy entered into a sponsorship agreement with the Lucas County Educational Service Center (LCESC) on September 20, 2004, whereby terms of the sponsorship were established. That agreement requires the Academy to pay to the sponsor ½ of 1% of the per pupil allotment paid to the Academy by the State of Ohio. A total of $8,210 of sponsorship fees was paid by the Academy to LCESC during fiscal year 2006.

15. SUBSEQUENT EVENT

On January 26, 2007, the Academy Board of Directors approved a promissory note with MiraCit Development Corp. for reimbursement of leasehold improvements incurred on behalf of FCI Academy from July 1, 2006 through November 30, 2006 in the amount of $250,043.

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

FCI Academy
Franklin County
2177 Mock Road
Columbus, Ohio 43219

To the Board of Directors:

We have audited the basic financial statements of the FCI Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2006, and have issued our report thereon dated February 13, 2007, wherein we noted the Academy restated July 1, 2005 net assets as a result of implementing a threshold amount for capitalizing assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Academy's management dated February 13, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-002. In a separate letter to the Academy's management dated February 13, 2007, we reported an other matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management, the finance committee and the Board of Directors. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 13, 2007

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

Finding Number	**2006-001**

Capital Assets

The Academy has not established procedures for tracking capital asset additions and deletions based on the Academy's capitalization threshold of $1,500, and, as a result, the Academy capitalized all capital outlay expenditures regardless of whether or not the item purchased met the capitalization threshold. All capital outlay expenditures were reviewed and audit adjustments were made to properly record only capital outlay expenditures which met the capitalization threshold.

Without procedures in place for tracking and reporting capital assets, accurate financial reporting and physical accountability of such assets may be compromised.

We recommend the Academy develop a capital asset system to track capital asset additions and disposals, which will provide an accurate inventory of capital assets at any time. The capital asset system should include the asset tag number and location, the original/historical cost, date of acquisition, useful life, annual depreciation, accumulated depreciation, and current book value. The capital asset system should reflect the capital assets that are reported on the financial statements. If the Academy desires for internal purposes to track assets below the threshold they can track them separately utilizing the same procedures.

Periodic physical inventory of capital assets should also be performed and reconciled to the capital asset listing to ensure the capital asset listing is complete and accurate.

Officials' Response

We are in the process of addressing the capital asset recommendation. We have notified our fiscal agent and are working on developing a capital asset tracking system.

Finding Number	**2006-002**

Finding for Recovery
Payroll Overpayment

The Academy hired Lisa Gaines as a teacher for fiscal year 2006 with a contract amount of $30,000. According to Ms. Gaines' personnel file, she resigned effective February 14, 2006. On March 15, 2006, Ms. Gaines was paid $5,403.23 for wages earned through February 14, 2006 that had not yet been paid. The Academy calculated the $5,403.23 payout as follows: Ms. Gaines' contract was for $30,000 at 186 days, which equals a daily rate of $161.29. Ms. Gaines worked 111 days from August 24, 2005 through February 14, 2006, which equals a total contract amount worked of $17,903.23. However, the Academy improperly calculated the actual amount paid to Ms. Gaines from August 24, 2005 through February 28, 2006 by taking 10 pays at $1,250 per pay for a total amount paid of $12,500. Based on this incorrect calculation, the Academy then improperly calculated Ms. Gaines' wages earned that had not yet been paid to be $5,403.23.

Per review of the Academy payroll records, Ms. Gaines was actually paid for 12 pays on her fiscal year 2006 contract, at $1,250 per pay for an amount of $15,000. Ms. Gaines' payout calculation described above failed to include the final two pays she received in February 2006 for a total amount of $2,500. As a result, Ms. Gaines was overpaid $2,500.

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

Finding Number	2006-002 (Continued)

Finding for Recovery
Payroll Overpayment (Continued)

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co., 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074: Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985).

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued jointly and severally against Lisa Gaines, Richard Cox, the Academy's Treasurer, and Travelers Casualty and Surety Company of America, Richard Cox's bonding company, in the amount of two thousand five hundred dollars ($2,500) and in favor of the FCI Academy general fund.

Official's Response
Richard Cox, the Academy's Treasurer, has received a promissory note for the finding for recovery issued against Lisa Gaines and Richard Cox to repay the payroll overpayment error. Richard Cox's insurance carrier has received the promissory note and will begin forwarding the payments as they are received to reimburse the Academy. The term and dollar amount is stipulated in the promissory note as sent to all parties.

In addition, Richard Cox has requested a refund from STRS in the amount of $250 and the Medicare amount of $36.26 will be requested for the respective submissions as part of the reimbursement under the finding for recovery.

FCI ACADEMY
FRANKLIN COUNTY

SCHEDULE OF PRIOR FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Capital Assets	No	Partially corrected; this matter is being repeated as a reportable condition.
2005-002	Finding for Recovery Repaid Under Audit Payroll Overpayment	Yes	Corrected.
2005-003	Finding for Recovery Repaid Under Audit Payroll	Yes	Corrected.
2005-004	Finding for Recovery Repaid Under Audit Duplicate Payments	Yes	Corrected.

Mary Taylor, CPA
Auditor of State

FCI ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 22, 2007

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