Academy of Columbus

Franklin County

Regular Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 23, 2008

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Academy of Columbus
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For the Fiscal Year Ended June 30, 2006

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Member American Institute of Certified Public Accountants
Member Ohio Society of Certified Public Accountants

Independent Auditor's Report

Academy of Columbus
Franklin County
4656 Heaton Rd
Columbus, Ohio

We have audited the financial statements of the business-type activities of the Academy of Columbus (the Academy), as of and for the year ended June 30, 2006, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The accounting records to support the professional services: management fees and the required note disclosure, maintained by the management company for the fiscal year ended June 30, 2006, were incomplete. We were unable to form an opinion regarding the amounts at which professional services: management fees and the required note disclosure are recorded in the accompanying statement of revenues, expenses and changes in net assets and the required note disclosure for the fiscal year ended June 30, 2006 (stated at $2,173,782).

In our opinion, except for the effects of such adjustments, in any, as might have been determined to be necessary had the records concerning professional services: management fees been adequate, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the business type activities of the Academy, as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2007 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
October 12, 2007

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, this is the School's first year of operation. Thus, only one year of data (fiscal year 2006), is presented.

Financial Highlights

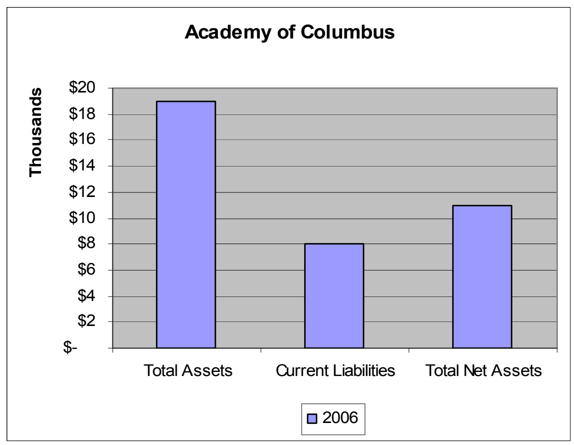
Key financial highlights for fiscal year 2006 are as follows:

- Total net assets were $10,904 in fiscal year 2006.
- Total revenue was $2,294,257 in fiscal year 2006.
- Total operating expenses were $2,283,353 in fiscal year 2006.
- Current liabilities were $8,078 and current assets were $18,982 in fiscal year 2006.
- The School had no long term debt 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.



These two 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, changes 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 for 2006.

(Table 1)
Statement of Net Assets

	2006
Assets	
Current Assets	$18,982
Liabilities	
Current Liabilities	$8,078
Net Assets	
Unrestricted	$10,904

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

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

Liabilities were $8,078 primarily due to accounts payable to various vendors.

Total net assets were $10,904. This positive equity represents the excess revenues from state aid not paid out to Imagine or other vendors.

Table 2 shows Changes in Net Assets from the past year.

(Table 2)
Statement of Revenues, Expenses and Changes in Net Assets

	2006
Operating Revenues	
State Aid	$1,159,523
In-kind Contributions	1,108,938
Total Operating Revenues	2,268,461
Non-Operating Revenues	
Miscellaneous Non-Operating Income	550
Operating Grants	25,246
Total Non-Operating Revenues	25,796
Total Revenues	2,294,257
Operating Expenses	
Professional Services: Management Fees	2,173,782
Advertising	22,655
Legal and Professional Services	18,777
Accounting	11,092
Other Purchased Services	26,617
Supplies	2,633
Other	27,797
Total Expenses	2,283,353
Change in Net Assets	$10,904

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

Budgeting Highlights

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

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 Imagine Schools, Inc.

Debt

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

Current Financial Related Activities

The financial outlook for the future looks good. Enrollment for fiscal year 2007 was 350 students and the looks to grow.

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 Arlene Wilson, Fiscal Officer for the Academy of Columbus, 4636 Heaton Rd Columbus, OH 43229.

Academy of Columbus
Statement of Net Assets
June 30, 2006

Assets	
Current Assets	
Cash and Cash Equivalents	$13,972
Intergovernmental Receivable	5,010
Total Assets	$18,982
Liabilities	
Current Liabilities	
Accounts Payable	$8,078
Total Liabilities	8,078
Net Assets	
Unrestricted	10,904
Total Net Assets	$10,904

See the accompanying notes to the financial statements.

Academy of Columbus
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2006

Operating Revenue	
State Aid	$1,159,523
In-Kind Contributions	1,108,938
Total Operating Revenue	2,268,461
Operating Expenses	
Professional Services: Management Fees	2,173,782
Advertising	22,655
Legal and Professional Services	18,777
Accounting	11,092
Other Purchased Services	26,617
Supplies	2,633
Other	27,797
Total Operating Expenses	2,283,353
Operating Income	(14,892)
Non-Operating Revenues	
Miscellaneous Non-Operating Income	550
Operating Grants	25,246
Total Non-Operating Revenues	25,796
Change in Net Assets	10,904
Net Assets Beginning of Year	0
Net Assets End of Year	$10,904

See the accompanying notes to the financial statements.

Academy of Columbus
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State	$1,154,513
Cash Payments for Goods and Services	(1,166,337)
Net Cash Provided by Operating Activities	(11,824)
Cash Flows from Noncapital Financing Activities	
Non-Operating Cash Received	550
Operating Grants Received	25,246
Net Cash Provided by Noncapital Financing Activities	25,796
Cash Flows from Capital and Related Financing Activities	
Cash Paid to Imagine for Loans	(3,991)
Initial Cash deposit	3,991
Net Cash Used in Capital and Related Financing Activities	0
Net Increase in Cash and Cash Equivalents	13,972
Cash and Cash Equivalents Beginning of Year	0
Cash and Cash Equivalents End of Year	$13,972
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	($14,892)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Changes in Assets and Liabilities:	
Intergovernmental Receivable	(5,010)
Accounts Payable	8,078
Net Cash Provided by Operating Activities	($11,824)
Noncash Transactions	
In-Kind Contributions	$1,108,938
Professional Services: Management Fees	1,108,938

See the accompanying notes to the financial statements.

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Academy Of Columbus (formerly Life Skills Center of Southeast 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 Imagine Schools, Inc. (IMAGINE) for most functions. See Note 5.

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

The School operates under a self-appointing, five-member Board of Directors (the Board). The School's Code of Regulations specifies 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 began operations in August 2005 and has one instructional/support facility, which is leased by Imagine. The facility is staffed with teaching personnel employed by IMAGINE, who provide services to 185 students

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 (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with GASB pronouncements. The School does not apply FASB statements and interpretations issued after November 30, 1989 to its proprietary activities. The more significant of the School's accounting policies are described below.

A. BASIS OF PRESENTATION

The School's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

The School uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (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

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

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 IMAGINE, and as such the School has no capital assets (see Note 5).

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under the above programs for the 2006 fiscal year totaled $1,159,523.

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 $25,246 in state and federal food service grants during fiscal year 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School had no restricted net assets at June 30, 2007.

I. USE OF ESTIMATES

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

3. DEPOSITS & INVESTMENTS

Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At June 30, 2006, the carrying amount of the School's deposits was $13,972 and the bank balance was $13,972. Of the bank balance, all was covered by federal depository insurance; therefore, there was no custodial credit risk.

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

5. AGREEMENT WITH IMAGINE

Effective April 25, 2005, the School entered into a Management Agreement (Agreement) with IMAGINE, which is an educational consulting and management company. The term of the agreement is indefinite with the only expiration coming in conjunction with the termination of the schools charter. IMAGINE 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 Sponsor to operate the School. The School had purchased service expenses for the fiscal year ended June 30, 2006 to IMAGINE of $1,064,844. The remaining $1,108,938 in purchased services expense was recorded as in-kind contributions. Significant provisions of the Agreement are as follows:

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

5. AGREEMENT WITH IMAGINE (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.

IMAGINE 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 IMAGINE. Such costs include, but are not limited to, salaries and benefits for all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, building payments, maintenance, and capital improvements. All personal property used in the operation of the School is the property of IMAGINE, unless purchased directly by the School with Federal funds.

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

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

Compensation and benefits of all employees of the School is paid by IMAGINE. If IMAGINE 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 IMAGINE under the Agreement.

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

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

6. DEFINED BENEFIT PENSION PLANS

The School has contracted with IMAGINE (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

IMAGINE 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.

6. DEFINED BENEFIT PENSION PLANS (Continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent 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 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2006 was $0 as IMAGINE has financial responsibility for these payments.

B. STATE TEACHERS RETIREMENT SYSTEM

IMAGINE 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 (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service that becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

6. DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2006 was $0 as IMAGINE has financial responsibility for these payments.

7. POSTEMPLOYMENT BENEFITS

IMAGINE, 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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $0 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS Ohio, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS Ohio 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.

However, the surcharge is capped at 2 percent of each employer's SERS Ohio salaries. For the 2006 fiscal year, the School paid $0 to fund health care benefits, including the surcharge as IMAGINE has financial responsibility for these payments.

7. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006, were $158,751,207. At June 30, 2006, SERS Ohio had net assets available for payment of health care benefits of $295.6 million. SERS Ohio has approximately 59,492 participants eligible to receive health care benefits.

8. MANAGEMENT COMPANY EXPENSES

For the fiscal year ended June 30, 2006, Imagine Schools, Inc and its affiliates incurred the following expenses on behalf of the School.

	2006
Expenses	
Direct Expenses:	
Salaries and wages	$749,765
Employees' benefits	260,652
Direct student costs	161,796
Occupancy costs	570,812
Office expense	181,884
Imagine Schools operations	213,817
Insurance	11,233
Sponsor fee	19,102
Professional services	2,214
Bank fees	2,507
Total Expenses	$2,173,782

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.

9. CONTINGENCIES

A. GRANTS

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

9. CONTINGENCIES (Continued)

B. PENDING LITIGATION

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2005, the Court of Appeals rendered a decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. 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 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. The review for fiscal year 2006 resulted in the discovery of an underpayment to the School in the amount of $5,010. This amount has been recorded as intergovernmental receivable in the financial statements.

D. STATE SCHOOL FUNDING DECISION

The Ohio Department of Education conducts reviews of enrollment date and 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 conclusions of this review could result in state funding being adjusted. The School does not anticipate any material adjustment for fiscal year 2006, as a result of such review.

10. FEDERAL TAX STATUS

The School has filed 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".

11. SUBSEQUENT EVENTS

On October 25, 2006, the Ohio Supreme Court rule (see Note 9) that publicly funded, privately operated community (i.e. Charter) Schools is constitutional.

12. RELATED PARTY TRANSACTIONS

Article V, Section K of the Charter School Operating Agreement states that if, at fiscal year end, the School has insufficient funds to meet reimbursement obligations to IMAGINE, that IMAGINE will forgive unreimbursed start-up and operating advances and consider such advances as contributions. These contributions have been reflected in the financial statements as in-kind contributions and professional services: management fees expenses. For the fiscal year ended June 30, 2006, these contributions and related expenses amounted to $1,108,938.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Academy of Columbus
Franklin County
4656 Heaton Rd
Columbus, Ohio

We have audited the financial statements of the business-type activities of the Academy of Columbus (the Academy) , as of and for the year ended June 30, 2006, which comprise the Academy's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 12, 2007, wherein we noted the accounting records to support the professional services: management fees and the required note disclosure, maintained by the management company for the fiscal year ended June 30, 2006, were incomplete. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, w noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and responses as item 2006-1.

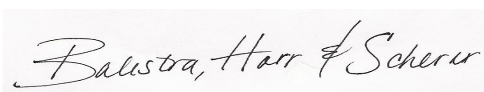
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risks that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of 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 to be material weaknesses. We believe that the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards,* which is described in the accompanying schedule of findings and responses as item 2006-2.

We also noted certain matters which we have reported to management of the Academy in a separate letter dated October 12, 2007.

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



Balestra, Harr & Scherer, CPAs, Inc.
October 12, 2007

Finding 2006-1

Material Weakness – Management Company's Maintenance of Supporting Documentation

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

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

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

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

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

Client Response:
The Board of Directors intends to engage a CPA firm to perform internal periodic reviews of the supporting documentation maintained by the management company.

Finding 2006-2

Material Citation – Failure to File Annual Report with the Auditor of State

Ohio Revised Code Section 117.38 states that GAAP-basis entities must file annual reports within 150 days. Any public office not filing the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred fifty dollars. The AOS may waive these penalties, upon the filing of the past due financial report.

The report shall contain the amount of: (A) receipts, and amounts due from each source; (B) expenditures for each purpose; (C) income of any public service industry that the entity owns or operates, as well as the costs of ownership or operation; and (D) public debt of each taxing district, the purpose of the debt, and how the debt will be repaid.

Finding 2006-2 (Continued)

Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

As of the audit report date, the Academy had not filed its annual financial report with the Auditor of State or published notice in a local newspaper state the financial report is available for public inspection. The Academy should implement procedures to ensure its annual financial report is filed and notice of availability for public inspection is published in accordance with the Ohio Revised Code.

Client Response:
Balestra, Harr & Scherer, CPAs was selected by the Auditor of State to perform the Academy of Columbus's 2006 audit. The GAAP conversion prepared by the Academy's former Treasurer, Brian Adams, was filed with Balestra, Harr & Scherer, CPAs during July 2007. Although the Academy filed the GAAP conversion late, it believed that filing the GAAP conversion with Balestra met the filing requirement.

The Academy is filing the GAAP conversion with the Auditor of State and will be publishing the required notice in the paper.

The Board of Directors has already addressed this issue by engaging Julian & Grube, CPAs to perform and file that GAAP conversion by November 27 of each year.

Mary Taylor, CPA
Auditor of State

ACADEMY OF COLUMBUS

FRANKLIN COUNTY

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 5, 2008

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