



Rea & associates a *brighter* way

Focus Learning Academy of Southeastern Columbus Franklin County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2015



Dave Yost • Auditor of State

Board of Directors
Focus Learning Academy of Southeastern Columbus
4480 Refugee Road
Columbus, Ohio 43232

We have reviewed the *Independent Auditor's Report* of the Focus Learning Academy of Southeastern Columbus, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Focus Learning Academy of Southeastern Columbus is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 16, 2016

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

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December 27, 2015

To the Board of Directors
Focus Learning Academy of Southeastern Columbus
Franklin County, Ohio
4480 Refugee Road
Columbus, OH 43232

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Focus Learning Academy of Southeastern Columbus, Franklin County, Ohio (the "School") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2015, and the changes in its financial position and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 12, the School restated the June 30, 2014 net position balance to account for the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the School's Proportionate Share of the Net Pension Liability*, and *Schedule of School Contributions* on pages 3-7, 28, and 29, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2015 on our consideration of the School'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Dublin, Ohio

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

The discussion and analysis of Focus Learning Academy of Southeastern Columbus (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2015. 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.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- Total Net Position increased \$60,105 in fiscal year 2015.
- State aid increased from \$1,543,963 in fiscal year 2014 to \$1,562,010 in fiscal year 2015 due to an increase in enrollment.
- Total expenses decreased from \$1,775,971 in fiscal year 2014 to \$1,728,604 in fiscal year 2015 despite an increase in enrollment.
- Current liabilities increased \$82,978 with current assets increasing \$83,386 in fiscal year 2015.
- The School has no long term debt outstanding as of June 30, 2015.
- Net Pension Liability decreased \$360,576 which is offset by an increase of \$340,915 in Deferred Inflows.

Using this Financial Report

This report consists of three parts, required supplementary information, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position reflect how the School did financially during fiscal year 2015. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

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

The School uses enterprise presentation for all of its activities.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Table 1 provides a summary of the School's Net Position for 2015 compared to the prior year.

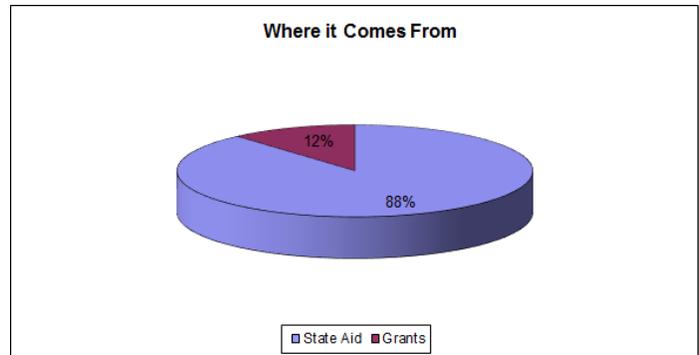
(Table 1)
Statement of Net Position

	<u>2015</u>	Restated <u>2014</u>
Assets		
Current Assets	<u>\$ 200,236</u>	<u>\$ 116,850</u>
Deferred Outflows of Resources		
Pension Requirements	<u>183,136</u>	<u>143,100</u>
Liabilities		
Current Liabilities	140,357	57,379
Long Term Liabilities	<u>1,981,881</u>	<u>2,342,457</u>
Total Liabilities	<u>2,122,238</u>	<u>2,399,836</u>
Deferred Inflows of Resources		
Pension Requirements	<u>340,915</u>	<u>-</u>
Net Position		
Unrestricted	<u><u>\$(2,079,781)</u></u>	<u><u>\$(2,139,886)</u></u>

Cash and other current assets increased 71.4 percent from \$116,850 in 2014 to \$200,236 in 2015. This is primarily due to increased receivables as of June 30, 2015, resulting from operations.

Current Liabilities increased 144.6 percent from \$57,379 in 2014 to \$140,357 in 2015. This is a result of payments owed and paid to eSchool Consultants, LLC related to the management agreement for state and federal grants receivable and payments due to the State for intergovernmental payables.

Total Net Position increased 2.8 percent from \$(2,139,886) in 2014 to \$(2,079,781) in 2015. This increase is due keeping costs reduced relative to revenue.



**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Table 2 shows the changes in net position ended June 30, 2015, as compared to changes reported for fiscal year 2014.

Table 2 shows Changes in Net Position for the past 2 years.

(Table 2)
Change in Net Position

	2015	2014
<u>OPERATING REVENUES</u>		
State Aid	\$1,562,010	\$1,543,963
Casino Aid	10,883	5,483
Facilities Aid	16,352	19,494
Other Operating Revenue	-	11,372
<u>NON-OPERATING REVENUES</u>		
Grants	199,436	207,377
Interest Income	28	43
Total Revenues	1,788,709	1,787,732
<u>OPERATING EXPENSES</u>		
Purchased Services: Management Fees	1,408,179	1,454,016
Purchased Services: Grant Programs	199,436	207,377
Sponsor Fees	48,457	46,319
Board of Education	22,797	18,341
Auditing and Accounting	23,043	28,534
Advertising	681	985
Other Services	26,011	20,399
Total Expenses	1,728,604	1,775,971
Change in Net Position	\$ 60,105	\$ 11,761

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 89% of revenues for the School in fiscal year 2015. Grant revenue decreased from \$207,377 in fiscal year 2014 to \$199,436 due primarily to decreased enrollment. Full-time equivalent enrollment decreased from 212 students to 200 students for fiscal years 2014 and 2015.

During 2015, the School adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$59,471 to \$(2,139,886).

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$143,100 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$105,624. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$	1,728,604
Pension expense under GASB 68		(105,624)
2015 contractually required contribution		165,321
Adjusted 2015 program expenses		1,788,301
Total 2014 program expenses under GASB 27		1,775,971
Increase in program expenses not related pension	\$	12,330

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

At the end of fiscal year 2015, the School had no capital assets. Per the management agreement, all capital assets are owned by eSchool Consultants, LLC.

Debt

At June 30, 2015, the School had no long term debt.

Current Financial Related Activities

The School is in its ninth year with eSchool Consultants, LLC as its management company. Future fees to be paid to eSchool Consultants will be at 93% of state aid. The School's sponsor, Buckeye Community Hope Foundation, receives a fee of 3% of state aid. This will allow the Board to retain 4% of state aid to meet its obligations. The financial outlook over the next several years shows continued growth in enrollment. But, future revenue increases are cautious due to Ohio's weak economic recovery.

Contacting Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Brian G. Adams, Fiscal Officer for the Focus Learning Academy of Southeastern Columbus, 65 E. Wilson Bridge Rd Suite 200, Worthington, OH 43085 or e-mail at badams@ocscltd.com.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
STATEMENT OF NET POSITION
JUNE 30, 2015**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 59,943
Accounts Receivable	69,778
Intergovernmental Receivable	<u>70,515</u>

Total Assets	<u>200,236</u>
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DEFERRED OUTFLOWS OF RESOURCES

Pension Requirements	<u>183,136</u>
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LIABILITIES

Current Liabilities

Accounts Payable	140,357
Intergovernmental Payable	<u>75,030</u>

Total Current Liabilities	<u>215,387</u>
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Long Term Liabilities

Net Pension Liability	<u>1,981,881</u>
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Total Liabilities	<u>2,122,238</u>
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DEFERRED INFLOWS OF RESOURCES

Pension Requirements	<u>340,915</u>
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NET POSITION

Unrestricted	<u>(2,079,781)</u>
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Total Net Position	<u><u>\$(2,079,781)</u></u>
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See accompanying notes to the basic financial statements

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Operating Revenues	
State Aid	\$ 1,562,010
Casino Aid	10,883
Facilities Aid	<u>16,352</u>
 Total Operating Revenues	 <u>1,589,245</u>
Operating Expenses	
Purchased Services: Management Fees	1,408,179
Purchased Services: Grant Programs	199,436
Sponsor Fees	48,457
Board of Education	22,797
Auditing and Accounting	23,043
Advertising	681
Other Services	<u>26,011</u>
 Total Operating Expenses	 <u>1,728,604</u>
 Operating Loss	 (139,359)
Non-Operating Revenues	
Grants	199,436
Interest Income	<u>28</u>
 Total Non-Operating Revenues	 <u>199,464</u>
 Change in Net Position	 <u>60,105</u>
 Net Position Beginning of Year, Restated (see note 12)	 <u>(2,139,886)</u>
 Net Position End of Year	 <u><u>\$ (2,079,781)</u></u>

See accompanying notes to the basic financial statements

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities	
Cash Received from State	\$1,593,947
Cash Payments for Goods and Services	<u>(1,820,149)</u>

Net Cash Used in Operating Activities	<u>(226,202)</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grants Received	<u>233,988</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest Income	<u>28</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>7,814</u>
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CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>52,129</u>
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CASH AND CASH EQUIVALENTS END OF YEAR	<u><u>\$ 59,943</u></u>
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RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating Loss	\$ (139,359)
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ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources:	
Intergovernmental Receivable	36,074
Accounts Payable	(63,220)
Net Pension Liability	(360,576)
Deferred Outflows	(40,036)
Deferred Inflows	<u>340,915</u>

Net Cash Used in Operating Activities	<u><u>\$ (226,202)</u></u>
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See accompanying notes to the basic financial statements

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**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

The School was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years from May 16, 2000 through June 30, 2005. In April 2005, Buckeye Community Hope Foundation became the sponsor. The School operates under a self-appointing seven-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by ESCHOOL. The facility is staffed with teaching personnel employed by ESCHOOL, who provide services to 200 students. Members of the Board are also members of the Board of the Focus Learning Academy of Southeastern Columbus.

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

Pursuant to the instruction and requirement of the Ohio Department of Education with respect to the three (3) Life Skills Centers in the Columbus area, and the assignments of each community school contract, a separate nonprofit entity had to be formed to govern each School. As a result, the Ellendale Group amended its articles of incorporation in June 2002 in order to change the name of the nonprofit to the Life Skills Center of Southeastern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Columbus. A nonprofit was formed May 2002 in the name of the Life Skills Center of Southeastern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Montgomery County. Also formed in May 2002 was the nonprofit entity the Life Skills Center of Southeastern Columbus. This entity was assigned the community school contract which was originally under the name of the Life Skills Center of Southeastern Ohio.

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

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

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 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 Position, a Statement of Revenues, Expenses, and Changes in Net Position, 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 Position, 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, deferred outflows of resources, all liabilities, and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

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

C. BUDGETARY PROCESS

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 2015.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. CAPITAL ASSETS AND DEPRECIATION

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

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the Career Based Intervention (CBI) Program, which are reflected under "State Aid" on the Statement of Revenues, Expenses and Changes in Net Position. The School participates in Casino tax distributions and Facilities aid funding which are reflected under "Casino Aid" and "Facilities Aid" respectively, on the Statement of Revenues, Expenses and Changes in Net Position. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions 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. Amounts awarded under the above programs for the 2015 school year totaled \$1,788,761.

G. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

H. NET POSITION

Net Position represent the difference between (all assets plus deferred outflows of resources) less (all liabilities, plus deferred inflows of resources). Net Position 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 Position are available.

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.

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(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 6.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 6).

3. DEPOSITS

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, 2015, the carrying amount of the School's deposits was \$59,943 and the bank balance was \$59,943. Of the bank balance, all was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure, \$0 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

4. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with ESCHOOL, ESCHOOL has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (See Note 5). Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

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

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

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5. AGREEMENT WITH ESCHOOL

Effective July 1, 2006, the School entered into a three-year Management Agreement (Agreement) with ESCHOOL, which is an educational consulting and management company. On March 18, 2009, the school amended the agreement and extended the length of the contract. Phase one of the extension is until June 30, 2015. A non-renewal clause is available to either party on or about January 1, 2015. In the event, neither party exercises this clause, the agreement will automatically renew for 2 additional 5-year periods, ending on June 30, 2024. ESCHOOL is responsible and accountable to the Board for the administration, operation and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. The School had purchased service expenses for the year ended June 30, 2015 to ESCHOOL of \$1,607,715. Significant provisions of the Agreement are as follows:

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

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

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

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

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

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

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

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(Continued)**

5. AGREEMENT WITH ESCHOOL (continued)

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

6. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

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6. DEFINED BENEFIT PENSION PLANS (continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017*
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was \$100,078 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

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6. DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

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6. DEFINED BENEFIT PENSION PLANS (continued)

The School's contractually required contribution to STRS was \$65,243 for fiscal year 2015

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 847,977	\$ 1,133,904	\$ 1,981,881
Proportion of the Net Pension Liability	0.00348625%	0.02240500%	
Pension Expense	\$ 29,510	\$ 76,114	\$ 105,624

At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 8,164	\$ 9,651	\$ 17,815
School contributions subsequent to the measurement date	65,243	100,078	165,321
Total Deferred Outflows of Resources	<u>\$ 73,407</u>	<u>\$ 109,729</u>	<u>\$ 183,136</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 156,879</u>	<u>\$ 184,036</u>	<u>\$ 340,915</u>

\$165,321 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	\$ (37,179)	\$ (43,596)	\$ (80,775)
2017	(37,179)	(43,596)	(80,775)
2018	(37,179)	(43,596)	(80,775)
2019	<u>(37,178)</u>	<u>(43,597)</u>	<u>(80,775)</u>
	<u>\$ (148,715)</u>	<u>\$ (174,385)</u>	<u>\$ (323,100)</u>

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6. DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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(Continued)**

6. DEFINED BENEFIT PENSION PLANS (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School's proportionate share of the net pension liability	\$ 1,617,744	\$ 1,133,904	\$ 726,953

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

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6. DEFINED BENEFIT PENSION PLANS (continued)

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	100.00 %	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 1,213,971	\$ 847,977	\$ 538,469

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
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7. POSTEMPLOYMENT BENEFITS

A. *School Employees Retirement System*

Health Care Plan Description – On behalf of the School, eSchool contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014, and 2013 were \$7,203, \$11,513 and \$14,261, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

B. *State Teachers Retirement System*

Plan Description – On behalf of the School, eSchool participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for

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7. POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System

post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$3,302 and \$1,982, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

8. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2015, eSchool Consultants, LLC and its affiliates incurred the following expenses on behalf of the School.

Expense	2015
Direct Expenses:	
Salaries & Wages	\$ 694,204
Employees' benefits	171,547
Professional & technical services	11,867
Property services	24,198
Travel	1,282
Communications	9,428
Utilities	4,612
Transportation	17,229
Books, periodicals & films	33,104
Food & related supplies	19,170
Other supplies	4,958
Other direct costs	48,796
Indirect Expenses:	
Overhead	333,207
Total Expenses	\$ 1,373,602

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.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

9. CONTINGENCIES

A. GRANTS

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

B. FULL TIME EQUIVALENCY

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the school; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

10. FEDERAL TAX STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization.

11. SPONSORSHIP FEES

The School contracts with Buckeye Community Hope Foundation (BCHF) to be its sponsor (beginning April 2005). The contract states "...the annual sponsorship fee to be paid to Buckeye Community Hope Foundation be set at 3% of the State's annual School Foundation support..." The Sponsor is to provide oversight, monitoring, and technical assistance for the School. Amount paid to BCHF for fiscal year 2015 was \$48,457.

12. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2015, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*.

**FOCUS LEARNING ACADEMY OF SOUTHEASTERN COLUMBUS
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

12. CHANGE IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the School.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported.

Net Position June 30, 2014	\$	59,471
Deferred Outflows of Resources		143,100
Net Pension Liability		<u>(2,342,457)</u>
Restated Net Position, June 30, 2014	\$	<u><u>(2,139,886)</u></u>

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

Focus Learning Academy of Southeastern Columbus
Franklin County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Two Fiscal Years (1)

	<u>2014</u>	<u>2013</u>
<i>State Teachers Retirement System (STRS)</i>		
School's proportion of the net pension liability (asset)	0.00348625%	0.00348625%
School's proportionate share of the net pension liability (asset)	\$ 847,977	\$ 1,010,104
School's covered-employee payroll	\$ 330,169	\$ 213,431
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	256.83%	473.27%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%
 <i>School Employees Retirement System (SERS)</i>		
School's proportion of the net pension liability (asset)	0.02240500%	0.02240500%
School's proportionate share of the net pension liability (asset)	\$ 1,133,904	\$ 1,332,353
School's covered-employee payroll	\$ 722,785	\$ 497,283
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	156.88%	267.93%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

Focus Learning Academy of Southeastern Columbus
Franklin County, Ohio
Required Supplementary Information
Schedule of School Contributions
Last Nine Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007
State Teachers Retirement System (STRS)									
Contractually Required Contribution	\$ 65,243	\$ 42,922	\$ 27,746	\$ 38,859	\$ 41,849	\$ 46,977	\$ 43,260	\$ 20,853	\$ 15,918
Contributions in Relation to the Contractually Required Contribution	(65,243)	(42,922)	(27,746)	(38,859)	(41,849)	(46,977)	(43,260)	(20,853)	(15,918)
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
School's covered-employee payroll	\$ 466,021	\$ 330,169	\$ 213,431	\$ 298,915	\$ 321,915	\$ 381,362	\$ 332,769	\$ 160,408	\$ 122,446
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
School Employees Retirement System (SERS)									
Contractually required contribution	\$ 100,078	\$ 100,178	\$ 68,824	\$ 67,430	\$ 79,822	\$ 62,818	\$ 67,127	\$ 31,781	n/a
Contributions in relation to the contractually required contribution	(100,078)	(100,178)	(68,824)	(67,430)	(79,822)	(62,818)	(67,127)	(31,781)	n/a
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	n/a
School's covered-employee payroll	\$ 759,317	\$ 722,785	\$ 497,283	\$ 501,338	\$ 635,020	\$ 463,944	\$ 682,185	\$ 323,635	n/a
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	n/a

n/a - information prior to 2008 is not available.

December 27, 2015

To the Board of Directors
Focus Learning Academy of Southeastern Columbus
Franklin County, Ohio
4480 Refugee Road
Columbus, OH 43232

**Independent Auditor's 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***

We have audited, in accordance with the 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, the financial statements of the Focus Learning Academy of Southeastern Columbus, Franklin County, Ohio (the School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 27, 2015, in which we noted the School restated their June 30, 2014 net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*."

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Dublin, Ohio

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Dave Yost • Auditor of State

FOCUS ACADEMY OF SOUTHEASTERN COLUMBUS

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2016**