

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

SHANE ALLEN, TREASURER



Mary Taylor, CPA

Auditor of State

Board of Directors
A+ Arts Academy
7244 E. Main Street
Reynoldsburg, Ohio 43068

We have reviewed the *Independent Auditor's Report* of the A+ Arts Academy, Franklin County, prepared by Julian and Grube, 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 A+ Arts Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 5, 2007

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A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

| | |
|---|---------|
| Independent Auditor's Report | 1 - 2 |
| Management's Discussion and Analysis | 3 - 6 |
| Basic Financial Statements: | |
| Statement of Net Assets/(Deficit)..... | 7 |
| Statement of Revenues, Expenses and Changes in Net Assets/(Deficit)..... | 8 |
| Statement of Cash Flows..... | 9 |
| Notes to the Basic Financial Statements..... | 10 - 20 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 21 - 22 |



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Directors
A+ Arts Academy
7244 E. Main Street
Reynoldsburg, OH 43068

We have audited the accompanying financial statements of the A+ Arts Academy (the "Academy"), Franklin County, Ohio, a component unit of Reynoldsburg City School District, as of and for the fiscal year ended June 30, 2006, which collectively 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.

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.

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

As disclosed in Note 3 to the financial statements, the Academy restated restricted net assets due to a correction of loans payable at July 1, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006, 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 considered in assessing the results of our audit.

Independent Auditor's Report
A+ Arts Academy
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 20, 2006

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets were \$(4,411) at June 30 2006.
- The Academy had operating revenues of \$868,391 and operating expenses of \$972,256 for fiscal year 2006. The Academy also received \$129,199 in federal and state grants during fiscal year 2006.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

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

The table below provides a comparison of the Academy's net assets for fiscal years 2006 and 2005. Certain 2005 balances have been restated as described in Note 3 of the notes to the basic financial statements.

| | <u>2006</u> | <u>Restated 2005</u> |
|---|-------------------|--------------------------|
| <u>Net Assets</u> | | |
| <u>Assets</u> | | |
| Current assets | \$ 49,505 | \$ 45,371 |
| Non-current assets | <u>984,606</u> | <u>-</u> |
| Total assets | <u>1,034,111</u> | <u>45,371</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 130,593 | 75,121 |
| Long -term liabilities | <u>907,929</u> | <u>-</u> |
| Total liabilities | <u>1,038,522</u> | <u>75,121</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 39,606 | - |
| Restricted | 4,664 | 3,080 |
| Unrestricted | <u>(48,681)</u> | <u>(32,830)</u> |
| Total net assets/(deficit) | <u>\$ (4,411)</u> | <u>\$ (29,750)</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Academy's net assets totaled \$(4,411).

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

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

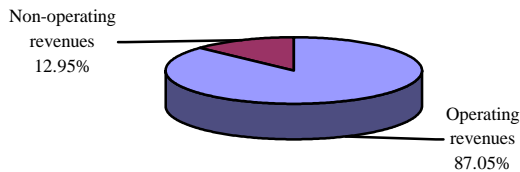
The table below provides a comparative analysis of the changes in net assets for fiscal years 2006 and 2005. Certain 2005 balances have been restated as described in Note 3 of the notes to the basic financial statements.

Change in Net Assets

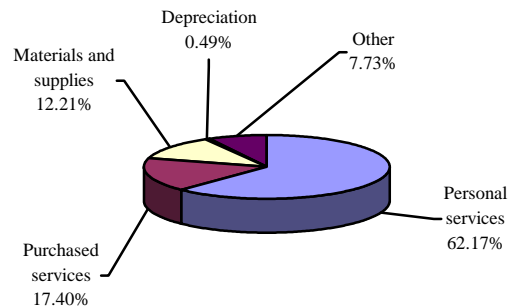
| | <u>2006</u> | <u>Restated 2005</u> |
|--|-------------------|--------------------------|
| <u>Operating Revenues:</u> | | |
| State foundation | \$ 837,967 | \$ 590,076 |
| Tuition and fees | 1,750 | 1,360 |
| Charges for services | 20,773 | 16,712 |
| Other | <u>7,901</u> | <u>4,166</u> |
| Total operating revenue | <u>868,391</u> | <u>612,314</u> |
| <u>Operating Expenses:</u> | | |
| Personal services | 604,407 | 390,231 |
| Purchased services | 169,213 | 156,675 |
| Materials and supplies | 118,743 | 92,724 |
| Depreciation | 4,777 | - |
| Other | <u>75,116</u> | <u>41,094</u> |
| Total operating expenses | <u>972,256</u> | <u>680,724</u> |
| <u>Non-operating revenues/expenses:</u> | | |
| Federal and state grants | 129,199 | 40,223 |
| Miscellaneous | 5 | - |
| Interest and fiscal charges | <u>-</u> | <u>(1,563)</u> |
| Total non-operating revenues/expenses | <u>129,204</u> | <u>38,660</u> |
| Change in net assets | 25,339 | (29,750) |
| Net assets/(deficit) at beginning of year (restated) | <u>(29,750)</u> | <u>-</u> |
| Net assets/(deficit) at end of year | <u>\$ (4,411)</u> | <u>\$ (29,750)</u> |

The charts below illustrate the revenues and expenses for the Academy during fiscal 2006.

2006 Revenues



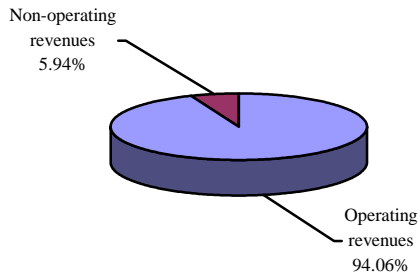
2006 Expenses



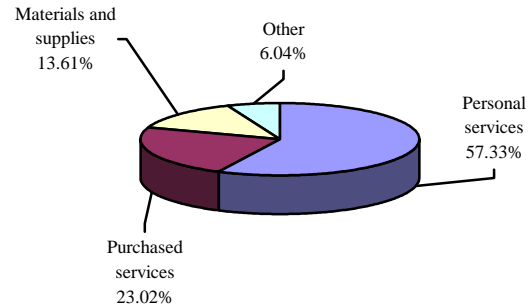
**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

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

2005 Revenues



2005 Expenses



Current Financial Related Activities

Enrollment for the Academy has climbed to approximately 152 students for fiscal year 2007. This is an 8.57% increase over last years count.

Foundation and DPIA collections are the primary source of funding received by the Academy representing 96.50% of total operating revenues. Academy also received state and federal restricted grant and aid which comprised 99.99% of non-operating revenue. The majority of this aid came from the Ohio Department of Education in the form of Title I and IDEA-B funds. These monies were used to finance educational opportunities to those students participating in the Academy's programs.

Payroll and fringe benefits totaled \$604,407 or 60.59% of total revenues and 62.16% of the expenses. Purchased services expense includes expenses incurred from fees for building rental, training and consulting, primarily.

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Shane Allen, Treasurer, A+ Arts Academy, 7244 East Main Street, Reynoldsburg, Ohio 43068.

**BASIC
FINANCIAL STATEMENTS**

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS/(DEFICIT)
JUNE 30, 2006

Assets:

Current Assets:

| | | |
|---|----|--------|
| Equity in pooled cash and cash equivalents. | \$ | 39,214 |
| Receivables: | | |
| Intergovernmental | | 9,717 |
| Materials and supplies inventory. | | 574 |
| | | 574 |
| Total current assets | | 49,505 |

Non-Current Assets:

| | | |
|---|--|-----------|
| Land | | 147,642 |
| Depreciable capital assets, net | | 836,964 |
| | | 836,964 |
| Total non-current assets. | | 984,606 |
| Total assets | | 1,034,111 |

Liabilities:

Current Liabilities:

| | | |
|--|--|---------|
| Accounts payable. | | 6,213 |
| Accrued wages and benefits | | 65,852 |
| Pension obligation payable | | 12,358 |
| Intergovernmental payable | | 3,542 |
| Loan payable | | 30,000 |
| Current portion of mortgage loan payable | | 7,071 |
| Compensated absences | | 5,557 |
| | | 5,557 |
| Total current liabilities | | 130,593 |

Long-term liabilities:

| | | |
|---------------------------------------|--|-----------|
| Mortgage loan payable | | 907,929 |
| | | 907,929 |
| Total long-term liabilities | | 907,929 |
| Total liabilities | | 1,038,522 |

Net Assets:

| | | |
|--------------------------------------|----|----------|
| Invested in capital assets, net | | |
| of related debt. | | 39,606 |
| Restricted for: | | |
| State funded programs | | 4,096 |
| Federally funded programs | | 568 |
| Unrestricted (deficit) | | (48,681) |
| | | (48,681) |
| Total net assets/(deficit) | \$ | (4,411) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

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

| | |
|---|--------------------------|
| Operating revenues: | |
| State foundation | \$ 837,967 |
| Tuition and fees. | 1,750 |
| Charges for services. | 20,773 |
| Other. | 7,901 |
| Total revenue | <u>868,391</u> |
| Operating expenses: | |
| Salaries and wages | 515,458 |
| Fringe benefits | 88,949 |
| Purchased services | 169,213 |
| Materials and supplies | 118,743 |
| Depreciation | 4,777 |
| Other. | 75,116 |
| Total expenses | <u>972,256</u> |
| Operating loss | <u>(103,865)</u> |
| Non-operating revenues/(expenses): | |
| Federal and state grants | 129,199 |
| Miscellaneous. | 5 |
| Total non-operating revenues/(expenses) | <u>129,204</u> |
| Change in net assets. | 25,339 |
| Net assets/(deficit) at | |
| beginning of year (restated) | <u>(29,750)</u> |
| Net assets/(deficit) at end of year. | <u><u>\$ (4,411)</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

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

| | | |
|---|-----------|---------------|
| Cash flows from operating activities: | | |
| Cash received from foundation | \$ | 831,321 |
| Cash received from tuition and fees | | 1,750 |
| Cash received from sales/charges for services | | 20,773 |
| Cash received from other operations. | | 8,416 |
| Cash payments for salaries and wages | | (500,837) |
| Cash payments for fringe benefits | | (82,731) |
| Cash payments for purchased services. | | (165,069) |
| Cash payments for materials and supplies | | (118,936) |
| Cash payments for other expenses | | (75,433) |
| | | <hr/> |
| Net cash used in operating activities | | (80,746) |
| | | <hr/> |
| Cash flows from noncapital financing activities: | | |
| Federal and state grants. | | 128,969 |
| Miscellaneous. | | 5 |
| | | <hr/> |
| Net cash provided by noncapital financing activities | | 128,974 |
| | | <hr/> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets. | | (989,383) |
| Issuance of loans | | 955,000 |
| Principal retirement. | | (10,000) |
| | | <hr/> |
| Net cash used in capital and related financing activities | | (44,383) |
| | | <hr/> |
| Net increase in cash and cash equivalents | | 3,845 |
| Cash and cash equivalents at beginning of year . . . | | 35,369 |
| Cash and cash equivalents at end of year. | \$ | 39,214 |
| | | <hr/> <hr/> |
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss. | \$ | (103,865) |
| Adjustments: | | |
| Depreciation. | | 4,777 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | | 515 |
| Increase in materials and supplies inventory | | (574) |
| Increase in accounts payable. | | 4,208 |
| Increase in accrued wages and benefits | | 18,026 |
| Increase in compensated absences payable | | 2,356 |
| Decrease in intergovernmental payable | | (6,607) |
| Increase in pension obligation payable. | | 418 |
| | | <hr/> |
| Net cash used in operating activities. | \$ | (80,746) |
| | | <hr/> <hr/> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL

The A+ Arts Academy, Franklin County, Ohio (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702, to maintain and provide an Academy exclusively for any educational, literary, scientific and related teaching service, that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status. The Academy's objective is to deliver a unique opportunity for students who show a strong interest or talent in the visual arts which can be delivered to students in grades 6 - 8. It is to be operated in cooperation with the public schools to provide an appreciation of the visual arts through studies of its history, theory and design. The Academy, which is part of the state's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Reynoldsburg City School District (the "Sponsor") for a period of five academic years commencing after July 1, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy is considered a component unit of the Reynoldsburg City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39.

The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the Academy's one instructional/support facility staffed by 7 non-certified staff members and 21 certificated full time teaching personnel who provide services to 171 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Academy has elected not to apply these FASB Interpretations. The Academy's significant accounting policies are described below.

A. Basis of Presentation

The Academy 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 and services.

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

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

D. Cash

All monies received by the Academy are deposited in a demand deposit account.

E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy has maintained a capitalization threshold of \$1,000. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed when incurred.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Computer equipment is depreciated over three years, copiers and furniture are depreciated over five years, and buildings are depreciated over 50 years.

F. 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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Foundation revenue received by the Academy during fiscal year 2006 was \$837,967.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and state grants for the fiscal year 2006 received by the Academy was \$129,199.

I. Estimates

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

J. Compensated Absences Policy

Personal leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off. The Academy records a liability for accumulated unused personal leave time when earned by employees.

K. Operating Revenues and Expenses

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

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - PRIOR PERIOD ADJUSTMENT

The Academy has presented a prior period adjustment of net assets reported June 30, 2005, in order to correct the amount previously reported as loans payable. Loans payable in the amount of \$19,340 were repaid during fiscal year 2005, therefore loans payable at June 30, 2005, should be \$0. The affect on net assets is as follows:

| | <u>Amount</u> |
|------------------------------------|---------------------------|
| Net Assets, June 30, 2005 | \$ (49,090) |
| Correction of loans payable | <u>19,340</u> |
| Restated Net Assets, June 30, 2005 | <u><u>\$ (29,750)</u></u> |

NOTE 4 - DEPOSITS

At fiscal year-end, the carrying amount of the Academy's deposits was \$39,214 and the bank balance was \$54,040. The entire bank balance was covered by federal depository insurance.

NOTE 5 - RECEIVABLES

At June 30, 2006, receivables consisted of intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$9,717.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

| | |
|-----------------------------------|--------------------------|
| Professional services | \$ 49,156 |
| Property rental and services | 103,534 |
| Utilities | 4,653 |
| Training and meetings | 25 |
| Transportation | 192 |
| Postage, advertising and shipping | <u>11,653</u> |
| Total | <u><u>\$ 169,213</u></u> |

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 - CAPITAL ASSETS

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

| | <u>Balance</u> <u>06/30/05</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>06/30/06</u> |
|---|-----------------------------------|-------------------|-------------------|-----------------------------------|
| Governmental Activities | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ - | \$ 147,642 | \$ - | \$ 147,642 |
| Total capital assets, not being depreciated | <u>-</u> | <u>147,642</u> | <u>-</u> | <u>147,642</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Building | - | 822,637 | - | 822,637 |
| Furniture and equipment | - | 19,104 | - | 19,104 |
| Total capital assets, being depreciated | <u>-</u> | <u>841,741</u> | <u>-</u> | <u>841,741</u> |
| <i>Less: accumulated depreciation</i> | | | | |
| Buildings and improvements | - | (1,371) | - | (1,371) |
| Furniture and equipment | - | (3,406) | - | (3,406) |
| Total accumulated depreciation | <u>-</u> | <u>(4,777)</u> | <u>-</u> | <u>(4,777)</u> |
| Governmental activities capital assets, net | <u>\$ -</u> | <u>\$ 984,606</u> | <u>\$ -</u> | <u>\$ 984,606</u> |

NOTE 8 - LONG-TERM OBLIGATIONS

The Academy has presented a restatement of long-term liabilities in order to correct the amount previously reported as loans payable. The loans recorded during fiscal year 2005 were repaid during fiscal year 2005, therefore, the loan outstanding at June 30, 2005, has been restated from \$19,340 to \$0. See Note 3 for the restatement of net assets reported as of June 30, 2005. The Academy's long-term obligations during fiscal year 2006 were as follows:

| | <u>Restated</u> <u>Balance at</u> <u>06/30/05</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at</u> <u>06/30/06</u> | <u>Due Within</u> <u>One Year</u> |
|-----------------------------|---|-------------------|--------------------|--------------------------------------|--------------------------------------|
| Loans payable | \$ - | \$ 40,000 | \$ (10,000) | \$ 30,000 | \$ 30,000 |
| Mortgage loan payable | - | 915,000 | - | 915,000 | 7,071 |
| Compensated absences | <u>3,201</u> | <u>4,707</u> | <u>(2,351)</u> | <u>5,557</u> | <u>5,557</u> |
| Total long-term liabilities | <u>\$ 3,201</u> | <u>\$ 959,707</u> | <u>\$ (12,351)</u> | <u>\$ 950,557</u> | <u>\$ 42,628</u> |

Compensated absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

Loans payable: Loans were obtained from the Superintendent during fiscal year 2006 in order to maintain operations in the amount of \$10,000. Principal payments of \$10,000 were made during fiscal year 2006. On May 31, 2006, a new loan was issued by the Academy's Superintendent which totaled \$30,000, in order to make the down payment on the mortgage loan described below. A balance of \$30,000 remains outstanding at year-end on both loans and is expected to be repaid over the next year.

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Mortgage Loan payable: On May 31, 2006 the Academy issued a mortgage loan in the amount of \$915,000 with an interest rate of 8.25% to be repaid over 30 years. The loan was issued to purchase a building which will be used as classrooms for the Academy. The building has been included in the Academy's capital assets in the statement of net assets. The debt service requirements for the mortgage loan are as follows:

| <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------|-------------------|---------------------|---------------------|
| 2007 | \$ 7,071 | \$ 75,418 | \$ 82,489 |
| 2008 | 7,901 | 74,588 | 82,489 |
| 2009 | 8,578 | 73,911 | 82,489 |
| 2010 | 9,313 | 73,176 | 82,489 |
| 2011 | 10,111 | 72,378 | 82,489 |
| 2012 - 2016 | 65,127 | 347,318 | 412,445 |
| 2017 - 2021 | 98,231 | 304,215 | 402,446 |
| 2022 - 2026 | 148,158 | 264,287 | 412,445 |
| 2027 -2031 | 223,464 | 188,982 | 412,446 |
| 2032 -2036 | 337,046 | 75,399 | 412,445 |
| Total | <u>\$ 915,000</u> | <u>\$ 1,549,672</u> | <u>\$ 2,464,672</u> |

NOTE 9 - OPERATING LEASE-CLASSROOMS

The Academy entered into an agreement with the St. Philip Church on August 1, 2005, for premises located at 1555 Elaine Road, Columbus, Ohio 43227 to use for classrooms. The lease began on August 15, 2005 and ended on June 30, 2006.

Lease payments for this space totaled \$54,900 during fiscal year 2006. The lease terminated in June 2006.

NOTE 10 - FISCAL AGENT - REYNOLDSBURG CITY SCHOOL DISTRICT

The sponsorship agreement states the Treasurer of Reynoldsburg City School District, the Sponsor shall serve as the Treasurer of the Academy. As part of this agreement, the Academy shall compensate the Sponsor three percent (3%) of the per pupil allocation (foundation) paid to the Academy by the State of Ohio.

The Treasurer of the Governing Authority shall perform the following functions while serving as the Treasurer of the Academy.

- A. Maintain the financial records of the Academy in the same manner as are financial records of Academy districts, pursuant to rules of the Auditor of State.
- B. Comply with the policies and procedures regarding internal financial control of the Academy;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

During the fiscal year the Academy accrued cost payable to the Sponsor and paid \$24,322.

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The Academy 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy'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 Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2006 and 2005 was \$9,109 and \$4,709, respectively. 61% has been contributed for fiscal year 2006. 100% has been contributed for 2005. \$3,596 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), 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 that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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 times 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 DC Plan and the DB 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+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 11 - PENSION PLANS - (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 Academy's required contributions for pension obligations to the DB plan for the fiscal year ended June 30, 2006 and 2005, was \$53,917 and \$36,710, respectively. 87% has been contributed for fiscal year 2006 and 100% has been contributed for 2005. \$7,057 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. The contributions made to the DC and Combined Plans were \$3,969 by the Academy and \$4,350 by employees for fiscal 2006.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2006, certain members of the Board of Trustees have elected to contribute to Social Security. The Academy's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$4,147 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, Academy paid \$3,622 to fund health care benefits, including the surcharge.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Medical, Life, Dental and Vision Insurance Benefits

The Academy provides medical benefits through Medical Mutual. The Academy offers individual and family health plans. The Board pays 75% of the premium amounts for single and family coverage.

B. Compensated Absences

Employees accumulate personal leave at a rate of 5 days per year. Unused personal leave may accumulate.

NOTE 14 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy maintains insurance coverage for rental/theft, general liability and contents liability.

The Academy has coverage for employee dishonesty, forgery and alternation coverage and computer equipment.

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 14 - RISK MANAGEMENT - (Continued)

| <u>Coverage</u> | <u>Insurer</u> | <u>Coverage</u> | <u>Deductible</u> |
|-----------------------|------------------|-----------------|-------------------|
| Education liability: | | | |
| Each occurrence | Mutual Insurance | \$ 1,000,000 | \$ 0 |
| Aggregate | | 3,000,000 | 0 |
| Building and contents | Mutual Insurance | 1,037,000 | 500 |
| Personal Property | Mutual Insurance | 153,450 | 500 |

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amount of insurance coverage from fiscal 2005.

B. Workers' Compensation

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

NOTE 15 - RELATED PARTY TRANSACTIONS

A. Sponsor

As parts of the Academy's contractual agreement with the Sponsor, the Academy is required to pay the Sponsor three percent (3%) of the per pupil allocation paid to the Academy from the State of Ohio for various fiscal services and support. In fiscal year 2006, the Academy paid the governing authority \$24,322 during the year.

B. Superintendent

During the current fiscal year, the Academy received loans from the Superintendent, Carolyn Berkely in the amount of \$40,000. The amount of \$10,000 was repaid during the current fiscal year. Loans are detailed in Note 8.

NOTE 16 - CONTINGENCIES

A. Grants

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

**A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 16 - CONTINGENCIES - (Continued)

B. State Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Academy was reviewed two times during this initial year of operations and no errors were found in enrollment, withdrawals or attendance.

C. Litigation

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



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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***

Board of Directors
A+ Arts Academy
7244 East Main Street
Reynoldsburg, OH 43068-3585

We have audited the financial statements of the A+ Arts Academy (the "Academy"), Franklin County, Ohio, a component unit of Reynoldsburg City School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 20, 2006. As disclosed in Note 3 to the financial statements, the Academy restated restricted net assets due to a correction of loans payable at July 1, 2005. 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 A+ Arts Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters that we have reported to the management of the Academy in a separate letter dated December 20, 2006.

Board of Directors
A+ Arts Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether A+ Arts Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated December 20, 2006.

This report is intended solely for the information and use of the management and Board of Directors of A+ Arts Academy, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 20, 2006



Mary Taylor, CPA
Auditor of State

A+ ARTS ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 15, 2007**