CHASE ACADEMY FOR COMMUNICATION ARTS
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

CHASE ACADEMY FOR COMMUNICATION ARTS
FRANKLIN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Chase Academy for Communication Arts
Franklin County
1533 Cleveland Avenue
Columbus, Ohio 43211

To the Board of Directors:

We have audited the accompanying basic financial statements of Chase Academy for Communication Arts, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chase Academy for Communication Arts, Franklin County, Ohio, as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Academy is experiencing certain financial difficulties. Those difficulties and Management's Plans are discussed in Note 14.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

September 26, 2006

CHASE ACADEMY
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The discussion and analysis of the Chase Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2005. 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. This is the Academy's first full fiscal year of operations.

Financial Highlights

- Total Assets were $117,968
- Total Liabilities were $95,611.
- Total Net Assets were $22,357.
- Net Assets increase $4,812.

Using this Annual Financial Report

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

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2005?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2005 compared to fiscal year 2004:

Table 1
Net Assets

	2005	2004
Assets		
Current Assets	$ 95,907	$ 364
Capital Assets, Net	22,061	17,520
Total Assets	$ 117,968	$ 17,884
Liabilities		
Current Liabilities	$ 95,611	$ 339
Total Liabilities	95,611	339
Net Assets		
Invested in Capital Assets	22,061	17,520
Unrestricted	296	25
Total Net Assets	$ 22,357	$ 17,545

Total assets increased by $100,084, which represents a 559.63 percent increase from fiscal year 2004. While cash and cash equivalents increased by $53,054, other current assets increased by $42,489. Total liabilities increased by $95,272. The Academy's net assets increased by $4,812, represents a 27.43 percent increase from 2004. These increases were due to this being the Academy's fist full year of operations.

Table 2 shows the changes in net assets for fiscal year 2005 as compared to fiscal year 2004.

Table 2
Change in Net Assets

	2005	2004
Revenues		
Operating Revenues:		
Foundation Payments	$ 534,216	$ -
Disadvanted Pupil Impact Aid	172,437	-
Special Education	4,036	-
Food Services	3,156	-
Classroom Fees	300	-
Other Operating Revenues	7,122	-
Non-Operating Revenues:		
Federal and State Grants	234,100	50,000
Interest	3,500	-
Contributions and Donations	22	-
Total Revenues	958,889	50,000
Expenses		
Operating Expenses		
Salaries	427,113	2,420
Fringe Benefits	88,541	374
Purchased Services	327,162	25,036
Materials and Supplies	82,935	4,625
Depreciation	23,613	-
Other Expenses	4,688	-
Non-Operating Expenses:		
Interest and Fiscal Charges	25	-
Total Expenses	954,077	32,455
Increase/(Decrease) in Net Assets	$ 4,812	$ 17,545

There was an increase in revenues of $908,889 and an increase in expenses of $921,622 from fiscal year 2004. Of the increase in revenues, the foundation payments increased by $534,216. Community Schools receive no support from tax revenues. As this was the first full year of operations, increases were expected.

The expense for salaries increased by $424,693 and the expense for fringe benefits increased by $88,167 from fiscal year 2004. This was primarily due to the hiring of staff throughout the 2005 school year. Material and supplies expense increased by $78,310, due to additional material and supplies purchases. Depreciation expense increased by $23,613, due to assets purchased beginning to be depreciated.

Capital Assets

At the end of fiscal year 2005 the Academy had $22,061 (net of $23,613 in accumulated depreciation) invested in furniture and equipment. Table 3 shows fiscal year 2005 balances compared to fiscal year 2004:

Table 3
Capital Asset at June 30, 2005
(Net of Depreciation)

	2005	2004
Computer and Software	$ 17,591	$ -
Furniture, Fixtures, and Equipment	4,470	4,520
Leasehold Improvements	-	13,000
Totals	$ 22,061	$ 17,520

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

Debt

The Academy entered into three loan agreements during fiscal year 2005. Two of the loans the Academy received were from its fiscal agent the Lucas County Educational Service Center in the amounts of $32,000 and $60,000. The third loan was received from an outside party in the amount of $20,000. The loans were repaid during the fiscal year and at June 30, 2005 the Academy had no debt outstanding. All loans were received for operating deficiencies.

Current Financial Issues

Chase Academy was formed in fiscal year 2004. The Academy's financial relationship with the Lucas County Educational Service Center aided in the raising of the quality of financial records and strengthens internal controls, due to being the Academy's sponsor and fiscal agent during 2005. During the 2004-2005 school year, there were approximately 96 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for fiscal year 2005 amounted to $5,169 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Mrs. Celia Jones, Administrator of Chase Academy, located at 1533 Cleveland Avenue, Columbus, OH 43211 or e-mail at jones0128@aol.com.

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CHASE ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets:	
Cash and Cash Equivalents	$ 53,418
Receivables:	
Intergovernmental	41,733
Prepaid Items	756
Total Current Assets	95,907
Noncurrent Assets:	
Capital Assets, Net of Accumulated Depreciation	22,061
Total Noncurrent Assets	22,061
Total Assets	$ 117,968
Liabilities:	
Current Liabilities:	
Account Payable	$ 55,235
Accrued Wages Payable	31,473
Intergovernmental Payable	8,903
Total Current Liabilities	95,611
Total Liabilities	95,611
Net Assets:	
Invest in Capital Assets	22,061
Unrestricted	296
Total Net Assets	$ 22,357

See Accompanying Notes to the Basic Financial Statements

CHASE ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

Operating Revenues:	
Foundation Payments	$ 534,216
Disadvantaged Pupil Impact Aid	172,437
Special Education	4,036
Food Services	3,156
Classroom Fees	300
Other Operating Revenues	7,122
Total Operating Revenues	721,267
Operating Expenses:	
Salaries	427,113
Fringe Benefits	88,541
Purchased Services	327,162
Materials and Supplies	82,935
Depreciation	23,613
Other Operating Expenses	4,688
Total Operating Expenses	954,052
Operating Loss	(232,785)
Non-Operating Revenues and Expenses:	
Operating Grants - Federal	234,100
Operating Grants - State	3,500
Contributions and Donations	22
Interest and Fiscal Charges	(25)
Total Non-Operating Revenues and (Expenses)	237,597
Change in Net Assets	4,812
Net Assets at Beginning of Year	17,545
Net Assets at End of Year	$ 22,357

See Accompanying Notes to the Basic Financial Statements

CHASE ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR YEAR ENDED JUNE 30, 2005

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 707,697
Cash Received from Classroom Materials and Fees	300
Cash Received from Other Operating Sources	10,278
Cash Payments to Supplies for Goods and Services	(369,669)
Cash Payments to Employees for Services	(397,702)
Cash Payments for Employee Benefits	(76,022)
Net Cash Used for Operating Activities	(125,118)
Cash Flows from Noncapital Financing Activities:	
Cash Recevied from Operating Grants - Federal	195,359
Cash Recevied from Operating Grants - State	3,500
Contributions and Donations	22
Net Cash Provided by Noncapital Financing Activities	198,881
Cash Flows from Capital and Related Financing Activities:	
Proceeds of Loans	112,000
Payments for Capital Acquisitions	(20,684)
Principal Payments	(112,000)
Cash Payments for Interest and Fiscal Charges	(25)
Net Cash Used for Capital and Related Financing Activities	(20,709)
Net Increase in Cash and Cash Equivalents	53,054
Cash and Cash Equivalents at Beginning of Year	364
Cash and Cash Equivalents at End of Year	$ 53,418

See Accompanying Notes to the Basic Financial Statements

CHASE ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(232,785)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		23,613
Changes in Assets and Liabilities:		
Increase in Prepaid Items		(756)
Increase in Accounts Payable		44,773
Increase in Accrued Wages Payable		31,473
Increase in Intergovernmental Payable		8,564
Total Adjustments		107,667
Net Cash Used for Operating Activities	$	(125,118)

See Accompanying Notes to the Basic Financial Statements

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Chase Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702 and completed its first year of operations. The Academy has applied for it's tax-exempt status under Section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes in August of 2006 but has not been awarded this status. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

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

The Academy operates under the direction of a eleven-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's 6 instructional/support facility staffed by 9 certificated full-time teaching personnel.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

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

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

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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 Academy on reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. The Academy did not have any investments during fiscal year 2005.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of $1,000. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized. The Academy did not capitalize interest during the year.

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

Description	Estimated Lives
Furniture and Equipment	5
Computers	3
Leasehold Improvements	1

H. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and Disadvantaged Pupil Impact Aid. Revenues from these programs are recognized as operating revenues (foundation payments and operating grants) in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements which specify the year when the resources are required to be used or the fiscal year use is permitted, matching requirements in which the Academy must provide local resources to be used for a specified purpose and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded $150,000 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the year ended 2005 totaled $944,253.

I. Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has no debt.

3. DEPOSITS

Custodial credit risk is the risk that in the event of bank failure the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial risk.

At June 30, 2005, the carrying amount of the Academy's deposits was $53,418 and the bank balance was $76,800. All of the bank balance was covered by federal depository insurance. The Academy had no investments at June 30, 2005.

4. RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	**Amount**
Intergovernmental	
Foundation Payments	$ 2,992
Federal Food Service	3,481
IDEA – B	869
Title I '05	31,946
Title V '05	47
Title IIA '05	1,438
Title IIA '05	960
Total Intergovernmental Receivables	$ 41,733

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Capital Assets Being Depreciation:				
Furniture, Fixtures, and Equipment	$ 4,520	$ 1,067	$ -	$ 5,587
Computers and Software	-	27,087	-	27,087
Leasehold Improvements	13,000	-	-	13,000
Total Capital Assets Being Depreciated	17,520	28,154	-	45,674
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	-	(1,117)	-	(1,117)
Computers and Software	-	(9,496)	-	(9,496)
Leasehold Improvements	-	(13,000)	-	(13,000)
Total Accumulated Depreciation	-	(23,613)	-	(23,613)
Capital Assets, Net of A/D	$ 17,520	$ 4,541	$ -	$ 22,061

6. 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. For the fiscal year ended 2005, the Academy contracted with the Erie Insurance Group for liability insurance. The general liability coverage is in the amount of $2,000,000 aggregate.

Settled claims have not exceeded this commercial coverage. The Academy owns no real estate, but leased a facility located at 2283 Sunbury Rd., Columbus, Ohio. (See Note 11)

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.

C. Employees Medical, Dental and Vision Benefits

The Academy has contracted with a private carrier to provide employee medical, dental, and insurance to its full time employees.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The stand-alone report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, 2005 was $12,750. 100% has been contributed for fiscal year 2005.

B. State Teachers Retirement Systems

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.

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (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, 2005, 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, 2005 was $45,692. The full amount has been contributed for fiscal year 2005.

8. POST EMPLOYMENT 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, 2005, 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 $32,637 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was $3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 eligible benefit recipients.

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

8. POST EMPLOYMENT BENEFITS (Continued)

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the Academy paid $3,124 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, 2004 (the latest information available), were $223,443,805 and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

9. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the Academy from the State of Ohio. A total contract payment of $13,734 was paid during the fiscal year, and a liability in the amount of $7,658 was accrued as a liability for the fiscal year ended June 30, 2005.

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

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

10. OPERATING LEASES – LESSEE DISCLOSURE

In October 2004, the Academy entered into an operating lease agreement for one year with My Brother's Keeper to lease space to house the Academy. Rental payments were $7,070 a month and totaled $63,630 for the fiscal year. They renewed the rent contract for another year in September 2005 with a new rent payment of $14,000 a month.

11. PURCHASED SERVICES

For the period July 1, 2004 through June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

PURCHASED SERVICES		
Professional and Technical Services	$	132,948
Property Services		65,708
Travel Mileage/Meeting Expense		23,387
Communications		7,847
Transportation Services		62,904
Other Purchased Services		34,368
Total Purchased Services	$	327,162

12. CONTINGENCIES

A. Grants

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

B. Full-Time Equivalency

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for the pending June 30, 2005 resulted in an underpayment of $2,992. This amount is reported in the accompanying financial statements.

C. Litigation

The Academy was not a party to any lawsuits or any litigation as of June 30, 2005.

13. SUBSEQUENT EVENTS

The Academy and its original sponsor the Lucas County Educational Service Center approved Buckeye Community Hope Foundation as the Academy's new sponsor beginning July 1, 2005.

The Academy changed its fiscal agent from the Lucas County Educational Service Center to ACE Charter School Services effective November 4, 2005.

14. MANAGEMENT PLAN

The Academy had an operating loss ($232,785),net assets of $22,357,and a change in net assets of $ 4,812 at the end of fiscal year 2005.

The Administration and Board of Directors for Chase Academy for Communication Arts continually identifies, develops and implements programs and activities that generate additional revenue. That increased revenue will help the Academy to remain financially viable during times when state funding is insufficient to cover operational costs. However, in the event that Chase Academy experiences financial difficulties and does not have the necessary level of reserve funds, the following measures will be implemented to decrease obligations and align them with the cash flow received:

- A Board of Director's review of operations to identify expenditures to be temporarily or permanently eliminated (i.e. field trips, enrichment activities, contract services);
- Launch student recruitment campaign to increase enrollment;
- Reduce hours of hourly staff;
- Reduce wages of salaried staff;
- Consolidate and eliminate positions;
- Purchase less expensive basic supplies (i.e. paper, toiletries);
- Re-negotiate facility and equipment leases;
- Re-design positions so they are not paid for with grant funds;
- Eliminate out-sources labor when appropriate;
- Reduce the costs of benefits; and
- Increase grant writing to secure additional funds.

Auditor of State
Betty Montgomery

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

Chase Academy for Communication Arts
Franklin County
1533 Cleveland Avenue
Columbus, Ohio 43211

To the Board of Directors:

We have audited the basic financial statements of Chase Academy for Communication Arts, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 26, 2006 wherein we noted the Academy is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-005 through 2005-012.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-005 listed above to be a material weakness. In a separate letter to the Academy's management dated September 26, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-004. In a separate letter to the Academy's management dated September 26, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

Betty Montgomery

Betty Montgomery
Auditor of State

September 26, 2006

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

Finding Number	**2005-001**

Board Minutes

Ohio Rev. Code Section 3314.03(A)(11)(d) requires a community school to comply with Sections 121.22 and 149.43 of the Ohio Revised Code. Ohio Rev. Code Section 121.22 (C) states that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection.

For the August 2004 and February 2005 meetings, no evidence was presented that meetings occurred and no Board minutes were prepared and made available for public review. The lack of minute records fails to document management's intent and approval regarding the operations of the Academy resulting in unenforceable actions by the Board.

We recommend the Board maintain minute records for all meetings held which should document all matters discussed and reviewed and measures passed including records of votes. The minutes should be made readily available to the general public for review in a timely manner.

Officials' Response:
Meeting minutes will be provided as dictated by the Ohio Revised Code.

Finding Number	**2005-002**

Not-for-Profit Status

Ohio Rev. Code Section 3314.03 requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school shall be established as either of the following:

- A nonprofit corporation established under Chapter 1702 of the Revised Code, if established prior to April 8, 2003; or
- A public benefit corporation established under Chapter 1702 of the Revised Code, if established after April 8, 2003.

Pursuant to Ohio Rev. Code Chapter 1702, if the community school established itself as a public benefit corporation, they would be exempt from Ohio income tax. To receive Federal tax exemption, corporations must file for an Internal Revenue Service (IRS) exemption certificate.

The Academy did not file for State or Federal income tax exemption during the audit period and has not filed tax returns or contemplated the potential taxes due. Failure to receive tax exempt status subjects the net income of the Academy to taxation by the State of Ohio and IRS.

We recommend the Academy file for State and Federal income tax exemptions.

Officials' Response:
The Not-for-Profit status was filed for by the Academy in August 2006. The Academy is awaiting the response from the IRS.

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

Finding Number	2005-003

Annual Report of Activities

Ohio Rev. Code Section 3314.03(A)(11)(g) requires that the governing authority of each community school submit an annual report of its activities and progress in meeting the goals and standards of Ohio Rev. Code 3314.03, divisions (A)(3) and (4) (academic goals method to determine progress and performance standards to evaluate a school's success) and its financial status to the sponsor, the parents of all students enrolled in the school, and the Legislative Office of Education Oversight.

The Academy did not complete the required report outlining all of the required elements and submit the report to all of the required parties for the period ended June 30, 2005. These failures may result in the Academy not fulfilling its required activity and progress requirements and standards with an inability for parents and oversight agencies to monitor such items.

We recommend the Academy develop and implement procedures to provide timely reporting of activities and progress with submission to the appropriate parties.

Officials' Response:
The annual report has since been provided to the Ohio Department of Education and the Academy's sponsor. Future reports will be provided to all stakeholders.

Finding Number	2005-004

Five Year Forecast

Ohio Rev. Code Section 3314.03(A)(11)(d) requires a community school to comply with 5705.391 of the Ohio Revised Code. Ohio Rev. Code Section 5705.391 requires that community schools submit a five year forecast by October 31st of each year to the Ohio Department of Education. This section also includes references to annual appropriations and annual revenue estimates although these measures need not follow other 5705 requirements.

The Academy did not submit a five year forecast to the Ohio Department of Education and did not prepare an annual budget. Failure to develop a five year forecast and budget results in a failure to plan for financial operations and results of the Academy and an inability for monitoring agencies to ensure tracking of the Academy's financial plan and funding status.

We recommend the Academy prepare a five year forecast and submit the document to the Ohio Department of Education. The Academy should also prepare an annual budget with appropriations and estimated receipts. The Board of Directors should monitor the budget monthly to help ensure the Academy does not overspend and should modify such forecasting tools when events occur that significantly modify the underlying assumptions.

Officials' Response:

No Response was received for this Finding.

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

Finding Number	2005-005

Personnel Files

Approval of personnel actions such as hiring and setting of compensation or employment contracts should be authorized by the Board. All Board approved employment actions should be maintained in employee personnel files in addition to contracts and withholding and enrollment forms to support employee deductions. No employment actions or approvals were documented in the minutes of the Board. A retroactive resolution was passed by the Board to authorize employment actions and compensation for employees employed during the 2005 fiscal year. The Academy could not provide accurate and up-to-date personnel files for its staff. The following deficiencies were noted during review of personnel files:

- Fifty percent did not have current contracts.
- Ten percent did not have completed retirement membership forms.
- Ten percent did not have completed withholding forms.

Failure to document Board authorized personnel actions and pay rates could result in unauthorized compensation of employees. In addition, failure to maintain contracts and withholding forms may result in deductions not being properly withheld from the employee's paychecks and improper pay amounts.

We recommend the Academy approve all personnel actions, including authorization of employment contracts and compensation in the minutes of the Board. We further recommend the Academy develop and implement procedures to provide for the maintenance of all completed and current retirement membership forms, withholding forms, and employee contracts.

Officials' Response:
All employees completed contracts, retirement forms, and withholding forms. A more reliable records maintenance system must be used. The Board will authorize compensation and employment contracts.

Finding Number	2005-006

Loan Agreements

All debt entered into by the Academy should be authorized by the Board.

The Academy entered into three loan agreements during fiscal year 2005. Two of the loans were with the Academy's sponsor and fiscal agent, Lucas County Educational Service Center in the amounts of $32,000 and $60,000. The other loan was with a private outside party in the amount of $20,000. Although the Executive Director signed these agreements, there was no evidence the Board authorized or reviewed these loans.

Lack of Board authorization could result in the Academy entering into unnecessary or inappropriate debt.

We recommend the Board authorize all loans and/or borrowing arrangements made by the Academy.

Officials' Response:
The Board was aware loans were obtained when the Ohio Department of Education did not release monthly funds. Monies were released in subsequent months and at no time was the Academy unable to repay the debt.

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

Finding Number	**2005-007**

Board Approval of Expenditures

The Academy should adopt a formal policy over authorization of expenditures. Expenditures should be approved by the Board on a monthly basis.

The Executive Director approved all of the Academy's expenditures during the fiscal year. However, there was no evidence the Board reviewed or approved any individual expenditures or check registers. Lack of a formal policy over expenditure authorization could result in errors or irregularities to occur and go undetected by management.

We recommend the Academy establish a formal policy in regards to the approval of expenditures. The policy should identify those individuals responsible for reviewing and approving all purchases of the Academy. Those individuals should be independent of such purchases. Also, the policy should require that sufficient supporting documentation be provided for all purchases. Expenditures should then be approved by the Board on a monthly basis.

Officials' Response:
The Academy has a formal policy for the approval of expenditures. The Board will ensure the policy is consistently followed.

Finding Number	**2005-008**

Segregation of Duties

Control activities and duties should be segregated to allow for a system of checks and balances within an organization.

The Executive Director was responsible for many significant operational duties for the Academy during the fiscal year. Some of these responsibilities included approving contracts and setting salary schedules (including her own); drafting and approving purchase requisitions and reimbursements (including her own); and entering into debt agreements and contracts. The results of these duties were rarely presented to the Board and documentation of Board review or approval was not present.

The lack of segregation of duties increases the risk that the Academy's funds could be misappropriated or fraudulent activity could occur and go undetected by management.

We recommend the Board take a more active role in approving employee salary schedules; hiring of personnel; the approval of purchases, debt agreements and contracts. A more active role by the Board allows for segregation of duties which enhance an organization's ability to properly safeguard assets.

Officials' Response:
The responsibilities identified above will be delegated to the appropriate Board committees.

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

Finding Number	2005-009

Supporting Documentation

Supporting documentation should be maintained to support all transactions executed by the Academy. The Academy failed to maintain supporting documentation (i.e. invoices or receipts for specific transactions) for \$263 or 8% of reimbursements made to the Executive Director and \$12,973 or 6% of overall disbursements made by the Academy.

Lack of supporting documentation over expense transactions could lead to errors, irregularities, and fraud without timely detection by management. Lack of supporting documentation may also result in findings for recovery in future periods.

We recommend the Academy maintain supporting documentation which includes all invoices or receipts and any other relevant supporting documentation for all expenditures and receipts to ensure proper accountability over all Academy funds.

Officials' Response:
All supporting documentation will be maintained to support transactions.

Finding Number	2005-010

Capital Assets

The Academy does not tag capital assets and has not developed a capital asset tracking system to maintain capital asset listings. The Academy has not developed a system to assist in recording assets as additions when purchased and deletions when disposed of throughout the year.

Failure to employ adequate controls over the acquisition, disposal, and recording of capital assets could result in misappropriation of assets and misstatements of the recorded value of capital assets on the Academy's financial statements.

We recommend the Board develop and implement procedures for the recording and updating of capital assets. These procedures should include tagging all assets meeting the Academy's capitalization criteria. Further, addition and disposal forms should be completed by the Academy and approved by management when assets are acquired or disposed. This information should then be entered on the capital asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location, useful life, depreciation, condition and any other supporting documentation to create a master capital asset listing. We also recommend the Academy revise its policy for leasehold improvements useful lives to the length of leases.

Officials' Response:
The Academy had tagged some of its capital assets, as well as created a spreadsheet for those acquisitions. However, a more comprehensive and accountable system will be developed and used.

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

Finding Number	2005-011

Reimbursement Policy

The Academy should have a formal Board approved reimbursement policy in place which outlines allowable reimbursable expenses, limits on reimbursements, required documentation, and individual(s) authorized to approve reimbursements.

The Academy does not have a formal reimbursement policy. The Executive Director was reimbursed for various items (i.e. gas, classroom supplies, van rentals, etc.) relating to Academy business for an amount of $11,717 during the fiscal year. The Executive Director also approved her own reimbursement for purchases.

The lack of a formal reimbursement policy and the Director's approval of her own reimbursements could result in unauthorized and inappropriate payments for individual expenses being made.

We recommend the Board establish a formal reimbursement policy. The policy should identify those individuals responsible for reviewing all purchases submitted for reimbursement, the types of allowable reimbursements, limits on reimbursements, and any pre-approval requirements, and required documentation.

Officials' Response:
The Board will develop and implement a formal reimbursement policy at the November 2006 Board meeting.

Finding Number	2005-012

Board Monitoring

Monitoring controls should be comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved, including operational, legal compliance, and financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

The Board of Directors should monitor the financial operations of the Academy regularly so that appropriate actions may be taken in response to financial conditions on a timely basis. Such monitoring should include review of system generated reports such as resources received, expenditures, invoices received that cannot be paid, financial forecasts, etc. Such review and action should take place during meetings of the Board of Directors and should be reflected in the minutes of such meetings.

Monitoring controls over financial operations were not implemented by the Academy's management. There was no evidence presented that the Board received financial information and performed any type of review and approval of the Academy's financial information throughout fiscal year 2005. Lack of effective monitoring controls could allow for operational failures and errors to occur without timely detection and appropriate management action.

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

Finding Number	2005-012 (Continued)

Board Monitoring (continued)

To assist management in detecting potential material financial and or compliance transactions that may affect financial operations, we recommend the Academy develop and implement monitoring controls. Some of these monitoring controls may consist of, but are not limited to, the following:

- Regular review of monthly budget and actual figures;
- Regular review of financial report summaries of sufficient detail (monthly detailed revenue, expenditure, and fund balance reports and their respective fluctuations);
- Review of financial forecasts and spending plans;
- Review of key performance indicators;
- Review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.);
- Review of payable aging reports;
- Review of unusual or significant items, long outstanding items, etc.;
- Monitoring grant expenditures in accordance with grant requirements;
- Ensuring adequate segregation of duties exist; and
- Review of monthly bank reconciliations.

Officials' Response:
The Board has new leadership and processes are being created to ensure the above recommendations are implemented.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CHASE ACADEMY FOR COMMUNICATION ARTS

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
DECEMBER 14, 2006