SCHOLARTS CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005 AND THE PERIOD ENDING SEPTEMBER 16, 2005

Auditor of State
Betty Montgomery

SCHOLARTS CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

ScholARTS Career Center for Children
Franklin County
400 E. Town Street
Columbus, Ohio 43215

To the Board of Directors:

We have audited the accompanying basic financial statements of the ScholARTS Career Center for Children, Franklin County, Ohio (the Center), as of and for the year ended June 30, 2005 and the period July 1, 2005 to September 16, 2005. These financial statements are the responsibility of the Center'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 ScholARTS Career Center for Children, Franklin County, Ohio, as of June 30, 2005 and September 16, 2005, and the changes in financial position and its cash flows for the year and period then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 14, the Center merged with ScholARTS Preparatory Middle School and ceased operations on September 16, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2006, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion & 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

February 27, 2006

SCHOLARTS CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 AND
THE PERIOD JULY 1, 2005 TO SEPTEMBER 16, 2005
UNAUDITED

The discussion and analysis of ScholARTS Career Center for Children (the Center) financial performance provides an overall view of the Center's financial activities for the fiscal year ended June 30, 2005 and for the period of July 1, 2005 to September 16, 2005, the initial period of operation. The intent of this discussion and analysis is to look at the Center'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 Center's financial performance.

Financial Highlights

- Total Assets as of June 30, 2005 and September 16, 2005 were $9,950 and $21,378. Assets of the Center consisted of cash on hand, prepaid items, state and federal grants receivable, and capital assets.

- Total Liabilities as of June 30, 2005 and September 16, 2005 were $45,740 and $77,231. A majority of the Center's liabilities as of these dates is an outstanding amount due to the Ohio Department of Education for foundation funding that was not supported by adequate student enrollment during the 2004-2005 school year.

- Total Net Assets as of June 30, 2005 and September 16, 2005 were ($35,790) and ($55,853). The 2004-2005 school year was the first year the Center provided instructional services to students and therefore, fiscal year 2005 was the first year the Center received revenues from the state foundation program. The Center was not able to continue to operate for the 2005-2006 school year. As a result the Scholarts Career Center for Children merged with the Scholarts Preparatory Middle School on September 16, 2005. See Note 14 for further details.

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. As the Center reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

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 Center's net assets at June 30, 2005 and September 16, 2005. As this is the initial period of operation, no comparison is made to prior year information:

SCHOLARTS CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 AND
THE PERIOD JULY 1, 2005 TO SEPTEMBER 16, 2005
UNAUDITED
(Continued)

(Table 1)
Net Assets

	June 30, 2005	Sept. 16, 2005
Assets		
Current Assets	$ 4,634	$ 16,062
Capital Assets, Net	5,316	5,316
Total Assets	$ 9,950	$ 21,378
Liabilities		
Current Liabilities	$ 45,740	77,231
Net Assets		
Invested in Capital Assets	5,316	5,316
Restricted	-	322
Unrestricted	(41,106)	(61,491)
Total Net Assets	$ (35,790)	($55,853)

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding. Again, since this is the initial period of operation, no comparison is made to the prior year.

Table 2
Change in Net Assets

	June 30, 2005	Sept. 16, 2005
Operating Revenue		
Foundation Payments	$ 58,665	-
Disadvantaged Pupil Impact Aid	38,015	-
Other Operating Revenue	726	-
Total Operating Revenues	97,406	-
Operating Expenses		
Salaries	54,194	11,999
Fringe Benefits	9,146	625
Purchased Services	78,527	5,684
Materials and Supplies	7,586	2,200
Depreciation Expense	261	-
Other Operating Expense	888	180
Total Operating Expenses	150,602	20,688
Non-Operating Revenues and (Expenses)		
Federal and State Grants	4,006	625
Contributions and Donations	13,400	0
Total Non-Operating Revenues and (Expenses)	17,406	625
Increase/(Decrease) in Net Assets	$ (35,790)	(20,063)

State Foundation Payments and Disadvantaged Pupil Impact Aid, as a whole, are the primary support for the Center, representing 99.3 percent of the operating revenue. Salaries and Fringe Benefits comprise 42.1 percent of operating expenses for the year ending June 30, 2005 and 61 percent of operating expenses for the period ending September 16, 2005.

For the year ending June 30, 2005, the Center had total revenues of $114,812, and total expenses of $150,602. The change in net assets for the year was a decrease of ($35,790). This decrease was due to accruals for salary and benefits for teachers who have incurred costs through June 30, 2005 and will be paid in July and August after fiscal year end.

For the period ending September 16, 2005, the Center had total revenues of $625, and total expenses of $20,688. The decrease in receipts is due to the Center owing the Ohio Department of Education for foundation funding that was not supported by adequate student enrollment during the 2004-2005 school year.

Capital Assets

At fiscal year end June 30, 2005 and the period ending September 16, 2005, the Center had $5,316 (net of $261 in accumulated depreciation) invested in furniture and equipment. Table 3 shows balances at June 30, 2005 and September 16, 2005:

Table 3
Capital Assets at June 30, 2005 and September 16, 2005
(Net of Depreciation)

Computers	$	1,375
Furniture, Fixtures, and Equipment		3,941
Totals	$	5,316

For more information on capital assets, see note 4 to the basic financial statements.

Current Financial Issues

The inclusion of the Lucas County Educational Service Center as the Center's fiscal agent greatly improves its internal control structure and the quality of its financial records. During the year ending June 30, 2005, there were approximately 26 students enrolled in the Center. The Center receives its finances mostly from state aid. Per pupil aid for this period amounted to $5,058 per student.

As of September 16, 2005 the Center merged with Scholarts Preparatory Middle School. The merger resulted in a new entity know as the Scholarts Preparatory and Career Center for Children. See Note 14 for further information regarding the merger.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional information contact Dr. Cheryl Parchia, Administrator, of ScholARTS Career Center for Children, 400 E. Town Street, Columbus, Ohio 43215-2185 or e-mail at dr.ctp@scholarts.org.

ScholARTS Career Center for Children
Statement of Net Assets
As of June 30, 2005

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 81
Intergovernmental Receivables	527
Prepaid Items	4,026
Total Current Assets	4,634
Noncurrent Assets:	
Capital Assets, Net	5,316
Total Noncurrent Assets	5,316
Total Assets	9,950
Liabilities:	
Current Liabilities:	
Accounts Payable	37,617
Accrued Wages and Benefits Payable	5,264
Intergovernmental Payable	1,859
Note Payable	1,000
Total Liabilities	45,740
Net Assets:	
Invested in Capital Assets	5,316
Unrestricted	(41,106)
Total Net Assets	$ (35,790)

See Accompanying Notes to the Basic Financial Statements

SchoIARTS Career Center for Children

Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005

Operating Revenues:		
Foundation Payments	$	58,665
Disadvantaged Pupil Impact Aid		38,015
Other Operating Revenues		726
Total Operating Revenues		97,406
Operating Expenses:		
Salaries		54,194
Fringe Benefits		9,146
Purchased Services		78,527
Materials and Supplies		7,586
Depreciation		261
Other Operating Expenses		888
Total Operating Expenses		150,602
Operating Loss		(53,196)
Non-Operating Revenues:		
Federal and State Grants		4,006
Contributions and Donations		13,400
Total Non-Operating Revenues		17,406
Change in Net Assets		(35,790)
Net Assets at Beginning of Year		-
Net Assets at End of Year	$	(35,790)

See Accompanying Notes to the Basic Financial Statements

ScholARTS Career Center for Children
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Cash Received from State of Ohio	$	132,035
Cash Received Other Operating Sources		726
Cash Payments to Suppliers for Goods and Services		(84,031)
Cash Payments to Employees for Services		(48,930)
Cash Payments for Employee Benefits		(11,313)
Cash Payments for Other Operating Uses		(708)
Net Cash Used for Operating Activities		(12,221)
Cash Flows from Noncapital Financing Activities:		
Operating Grants-Federal		479
Operating Grants-State		3,000
Note Proceeds		1,000
Contributions and Donations		13,400
Net Cash Provided by Noncapital Financing Activities		17,879
Cash Flows from Capital and Related Financing Activities:		
Payments for Capital Acquisitions		(5,577)
Net Cash Used for Capital and Related Financing Activities		(5,577)
Net Increase in Cash and Cash Equivalents		81
Cash and Cash Equivalents at Beginning of Year		-
Cash and Cash Equivalents at End of Year	$	81
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(53,196)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities		
Depreciation		261
Changes in Assets and Liabilities:		
Increase in Prepaid Items		(4,026)
Increase in Accounts Payable		37,617
Increase in Accrued Wages		5,264
Increase in Intergovernmental Payable		1,859
Total Adjustments		40,975
Net Cash Used for Operating Activities	$	(12,221)

See Accompanying Notes to the Basic Financial Statements

ScholARTS Career Center for Children
Statement of Net Assets
As of September 16, 2005

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 11,831
Prepaid Items	4,231
Total Current Assets	16,062
Noncurrent Assets:	
Capital Assets, Net	5,316
Total Assets	21,378
Liabilities:	
Current Liabilities:	
Accounts Payable	77,231
Net Assets:	
Invested in Capital Assets, Net of Related Debt	5,316
Restricted for Other Purposes	322
Unrestricted	(61,491)
Total Net Assets	($55,853)

See Accompanying Notes to the Basic Financial Statements

ScholARTS Career Center for Children
Statement of Revenues, Expenses and Changes in Net Assets
For the Period July 1, 2005 to September 16, 2005

<u>Operating Revenues:</u>		
Foundation Payments	$	-
Disadvantaged Pupil Impact Aid		-
Total Operating Revenues		-
<u>Operating Expenses:</u>		
Salaries		11,999
Fringe Benefits		625
Purchased Services		5,684
Materials and Supplies		2,200
Other Operating Expenses		180
Total Operating Expenses		20,688
Operating Loss		(20,688)
<u>Non-Operating Revenues:</u>		
Federal and State Grants		625
Change in Net Assets		(20,063)
Net Assets at Beginning of Year		(35,790)
Net Assets at End of Year	$	(55,853)

See Accompanying Notes to the Basic Financial Statements

ScholARTS Career Center for Children
Statement of Cash Flows
For the Period July 1, 2005 to September 16, 2005

Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Cash Received from State of Ohio	$	41,876
Cash Payments to Suppliers for Goods and Services		(10,146)
Cash Payments to Employees for Services		(17,263)
Cash Payments for Employee Benefits		(2,689)
Cash Payments for Other Operating Uses		(180)
Net Cash Provided by Operating Activities		11,598
Cash Flows from Noncapital Financing Activities:		
Operating Grants-Federal		552
Operating Grants-State		600
Cash Payment of Outstanding Note		(1,000)
Net Cash Provided by Noncapital Financing Activities		152
Net Increase in Cash and Cash Equivalents		11,750
Cash and Cash Equivalents at Beginning of Year		81
Cash and Cash Equivalents at End of Year	$	11,831
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating Loss	$	(20,688)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Changes in Assets and Liabilities:		
Increase in Prepaid Items		(205)
Increase in Accounts Payable		39,614
Decrease in Accrued Wages		(5,264)
Decrease in Intergovernmental Payable		(1,859)
Total Adjustments		32,286
Net Cash Provided by Operating Activities	$	11,598

See Accompanying Notes to the Basic Financial Statements

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND THE PERIOD JULY 1, 2005 TO SEPTEMBER 16, 2005

1. DESCRIPTION OF THE REPORTING ENTITY

SchoIARTS Career Center for Children (the Center) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Center's mission is to increase literacy and high school graduation rates of urban children. The Center, 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 Center may acquire facilities as needed and contract for any services necessary for the operation of the Center. This is the initial period of operations.

The Center was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing May 4, 2004. The Sponsor is responsible for evaluating the performance of the Center and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the Center (See Note 10).

The Center operates under the direction of a Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Center's one instructional/support facility staffed by 3 certificated full time teaching personnel who provide services to 26 students.

The Board ceased operations on September 16, 2005 and merged with Scholarts Preparatory Middle School (See Note 14).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Center 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 Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Center's accounting policies are described below.

A. Basis of Presentation

The Center'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 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 Center finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

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

Revenues resulting from non-exchange transactions, in which the Center receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to Center 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 Center and its sponsor. The contract between the Center 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 Center are accounted for by the Center's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Center's name. Monies for the Center are maintained in these accounts.

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

F. Intergovernmental Revenues

The Center currently participates in the State Foundation Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are met.

G. Prepaid Items

Payments made to the State Teachers Retirement System for retirement benefits that will be earned beyond June 30, 2005 and September 16, 2005, are recorded as prepaid items. A current asset for the prepaid amount is recorded at the time the retirement is paid and an expense is reported in the year in which the retirement expense is incurred (See Note 6).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center's capitalization policy is to capitalize all capital outlay expenses over $150. The Center 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.

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

Description	Estimated Lives
Computers	5
Furniture, Fixtures and Equipment	5

I. Net Assets

Net assets represent the difference between assets and liabilities. 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 Center has no debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or regulations of other governments.

J. Operating Revenues and Expenses

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

K. Estimates

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

3. DEPOSITS

For the year ending June 30, 2005, the carrying amount of the Center's deposits was $81, and the bank balance was $280. For the period ending September 16, 2005, the carrying amount and bank balance of the Center's deposits was $11,831. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005 and September 16, 2005 the bank balances were not exposed to custodial risk as discussed below, as the bank balances were covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Center will not be able to recover deposits.

4. CAPITAL ASSETS

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

	Balance 7/1/2004	Additions	Deductions	Balance 6/30/2005
Capital Assets:				
Computers	$ -	$ 1,398	$ -	$ 1,398
Furniture, Fixtures and Equipment	-	4,179	-	4,179
Totals Capital Assets	-	5,577	-	5,577
Less Accumulated Depreciation:				
Furnitures, Fixtures, and Equipment	-	(261)	-	(261)
Total Accumulated Depreciation	-	(261)	-	(261)
Capital Assets, Net	$ -	$ 5,316	$ -	$ 5,316

There were no capital asset additions or deletions during the period of July 1, 2005 to September 16, 2005. Therefore, capital assets net of accumulated depreciation at September 16, 2005 are $5,316.

5. RISK MANAGEMENT

A. Insurance Coverage

The Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ending June 30, 2005 and the period of July 1, 2005 to September 16, 2005, the Center contracted with the A.E. Olverson Agency and MFI Premium Budget for insurance.

B. Workers' Compensation

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

6. PENSION PLANS

A. School Employees Retirement System

The Center 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 43215-3476 or by calling (614) 222-5853.

6. PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Center 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 Center'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. 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 Center's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005 was $440; none of the amount owed had been contributed during fiscal year 2005, but the amount was paid in full during the period of July 1, 2005 through September 16, 2005. The Center was not required to contribute additional pension obligations during the period of July 1, 2005 to September 16, 2005.

B. State Teachers Retirement System

The Center 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 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. Center 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.

6. PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

The Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, was $6,410; over 100 percent has been contributed for fiscal year 2005. The overpayment of the Center was $4,026 and is shown as prepaid items on the statement of net assets.

The Center's required contributions for the period of July 1, 2005 to September 16, 2005 was $1,997; over 100 percent has been contributed. The overpayment as of September 16, 2005 was $4,231 and is shown as prepaid items on the statement of net assets.

7. POSTEMPLOYMENT BENEFITS

The Center 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 Center, this amount equaled $1,033 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.

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.

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.

8. SHORT TERM DEBT

As stated in Note 13, during fiscal year ending June 30, 2005 the Center entered into short term loan with CEO Dr. Cheryl Parchia for $1,000. The $1,000 balance of this loan as of June 30, 2005 is reflected on the Statement of Net Assets. The loan was repaid by the Center during the period of July 1, 2005 to September 16, 2005.

9. CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2005 and September 16, 2005.

B. School Funding

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has conducted a review of the Center's 2005 student enrollment data and FTE calculations. The final review for fiscal year 2005 reflected that the Center owed the Ohio Department of Education $35,355 as of June 30, 2005.

The Ohio Department of Education has also estimated that the Center owes the FTE funding collected in July, August, and September of 2005 of $41,876. A total liability of $77,231 will be reported as of September 16, 2005 on the statement of net assets.

See note 14. The ScholARTS Preparatory and Career Center for Children has asked the Ohio Department of Education to repay this liability over a 24 month period to alleviate cash flow problems and is attempting to negotiate the repayment.

C. Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are a part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on Scholarts Career Center for Children is not presently determinable.

10. FISCAL AGENT

The Center 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 Center. As part of this agreement, the Center shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the Center from the State of Ohio. Total contract payments of $2,701 were paid during the period September 1, 2004 to June 30, 2005 and $322 was paid during the period of July 1, 2005 to September 16, 2005.

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

- Maintain custody of all funds received by the Center in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Center;
- Maintain all financial records of the Center 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 Center or that Officer's designee;
- Assist the Center in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Center 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 Center 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 Center so long as the proposed expenditure is within the approved budget and funds are available.

11. PURCHASED SERVICES

For the year ended June 30, 2005 and the period of July 1, 2005 to September 16, 2005, purchased service expenses were payments for services rendered by various vendors, and are as follows:

	June 30, 2005	Sept. 30, 2005
Professional and Technical Services	$ 34,165	$ 4,126
Property Services	37,856	276
Travel	722	-
Communications	2,352	1,281
Contracted Craft or Trade Service	3,252	-
Pupil Transportation Services	180	-
Total Purchased Services	$ 78,527	$ 5,683

12. OPERATING LEASES – LESSEE DISCLOSURE

The Center made lease payments to Xerox for a copier in the amount of $820 for the period September 1, 2004 to June 30, 2005.

In September of 2004, the Center entered into an operating lease with the Church of Christ of the Apolistic Way for the use of the Center's facility. Payments made totaled $33,916 for the fiscal year ending June 30, 2005. No payments were made for the period of July 1, 2005 to September 16, 2005.

13. RELATED PARTY TRANSACTIONS

Dr. Cheryl Parchia, Founder and CEO of the Center, also served on the Center's board of directors. During fiscal year ending June 30, 2005, the Center paid Dr. Cheryl Parchia $4,020 for CEO services and reimbursement of miscellaneous other expenses.

In addition, on June 5, 2005 Dr. Cheryl Parchia provided a $1,000 interest free loan to the Center to cover operational costs. The loan was paid off in July and August of 2005. For fiscal period ending September 16, 2005 the Center paid Dr. Cheryl Parchia $1,224 for the repayment of the loan and reimbursement of miscellaneous expenses.

Melody Parchia, is the daughter of Dr. Cheryl Parchia, CEO and serves as the Board of Director. She was not compensated for servicing on the Board of Directors.

14. CEASED OPERATIONS/SUBSEQUENT EVENTS

On September 6, 2005, the Ohio Department of Education authorized the merger of the ScholARTS Career Center for Children and Scholarts Preparatory Middle School prior to the start of the 2005-2006 academic year. The merger resulted in a new entity known as the ScholARTS Preparatory and Career Center for Children. The Lucas County Educational Service Center closed financial records of the Scholarts Career Center for Children on September 16, 2005. The statement of net assets for the period ended September 16, 2005, reflects all assets and liabilities assumed by the ScholARTS Preparatory and Career Center for Children.

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

ScholARTS Career Center for Children
Franklin County
400 E. Town Street
Columbus, Ohio 43215

To the Board of Directors:

We have audited the accompanying basic financial statements of the ScholARTS Career Center for Children, Franklin County, Ohio, (the Center) as of and for the year ended June 30, 2005 and the period July 1, 2005 to September 16, 2005 and have issued our report thereon dated February 27, 2006 wherein we noted the Center merged with ScolARTS Preparatory Middle School and ceased operations on September 16, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order 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 Center'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 2005-002 and 2005-003.

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

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Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
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Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001.

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

February 27. 2006

SCHOLARTS CAREER CENTER FOR CHILDREN
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005 AND SEPTEMBER 16, 2005

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

FINDING NUMBER 2005-001

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 Sections 121.22 (A) and (C) requires that all official actions of the Board of Directors be conducted in open meetings and that all pertinent information be promptly recorded in the record of proceedings (minutes) which are available for public inspection.

A Board of Directors was not appointed until November of 2004. Therefore, no board meetings took place until November 8, 2004 even though the Center began to serve students during September of 2004. The following are start up activities, prior to November 8, 2004, which were not approved by the Board of Directors:

- The sponsorship contract and fiscal agent agreement with Lucas County Educational Service Center
- The initial lease agreement for the building used for student instruction
- The food service contract
- Legal counsel for the Center
- The first payroll paid to employees was September 30, 2005, however the Board did not approve employee contracts until November 8, 2004.

Failure to have pertinent actions or transactions approved in an official board meeting increases the risk that unauthorized transactions or decisions are being made.

We recommend the Center promptly record, in detail, the official actions of the Board of Directors and that all business be completed in open meetings. Additionally, the minutes should contain documentation that the Board reviewed and approved matters such as the monthly bank reconciliations, receipts, expenditures/bills, fund cash balance reports and budgets. (The Board received this information, but it was not documented in the minutes)

FINDING NUMBER 2005-002

Inventory/Capital Asset Listing

The Center does not maintain a detailed capital asset listing.

The failure to maintain a capital asset listing increases the risk of loss or theft of the Center's assets.

The Treasurer of the Center should maintain a detailed capital asset listing. Each asset item should be individually tagged. The listing should include the item's tag number and location, the original/historical cost, date purchased, useful life, year-to-date and accumulated depreciation, and current book value.

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

FINDING NUMBER 2005-003

Approval of Purchases

The Board of Directors implemented a purchasing policy that required the CEO to complete a purchase order prior to all purchases and forward it to the fiscal agent.

The following are instances in which the purchasing policy was not properly followed as required by the Center's Board of Directors:

1. Four purchases out of 28 tested were not properly approved by the CEO through the use of a purchase order.
2. Five purchases out or 28 tested did not have prior approval by the CEO as evidenced by the purchase order being dated after the expenditure was incurred.

The Board should ensure that all fiscal policies are followed by periodically reviewing internal documentation to ensure all expenditures are being made for a proper public purpose.

We did not receive a response from Officials to the findings reported above.

Auditor of State
Betty Montgomery

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SCHOLARTS CAREER CENTER FOR CHILDREN

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
JUNE 27, 2006