A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE FISCAL YEAR ENDED
JUNE 30, 2005

MITCHELL BIEDERMAN, TREASURER

Auditor of State
Betty Montgomery

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

We have reviewed the *Independent Auditor's Report* of the A+ Arts Academy, Franklin County, prepared by Julian & Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 8, 2006

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
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A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Julian & Grube, Inc.
Serving Ohio Local Governments
333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of A+ Arts Academy (the "Academy"), Franklin County, Ohio, a component unit of Reynoldsburg School District, as of and for the fiscal year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2005, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 16, 2005

A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO

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

The management's discussion and analysis of the A+ Arts Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 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.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets were $(49,090) at June 30, 2005.

- The Academy had operating revenues of $612,314 and operating expenses of $700,064 for fiscal year 2005. The Academy also received $40,223 in federal and state grants during fiscal year 2005.

Using these Basic Financial Statements

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

Reporting the Academy Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2005"? The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The table below provides an analysis of the Academy's net assets for fiscal year 2005. A comparative analysis will be provided in future years when prior year information is available.

Net Assets

	2005
Assets	
Current assets	$ 45,371
Total assets	45,371
Liabilities	
Current liabilities	94,461
Total liabilities	94,461
Net Assets	
Restricted	3,080
Unrestricted	(52,170)
Total net assets	$ (49,090)

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Academy's net assets totaled $(49,090).

A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO

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

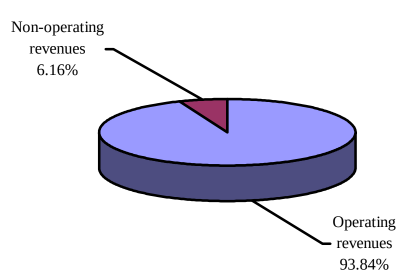
The table below provides an analysis of the changes in net assets for fiscal year 2005. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

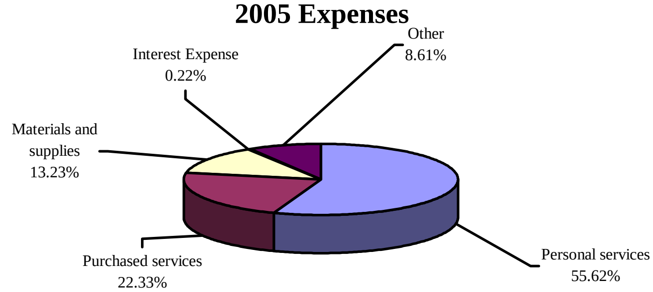
	2005
Operating Revenues:	
State foundation	$ 590,076
Tuition and fees	1,360
Charges for services	16,712
Other	4,166
Total operating revenue	612,314
Operating Expenses:	
Personal services	390,231
Purchased services	156,675
Materials and supplies	92,724
Other	60,434
Total operating expenses	700,064
Non-operating revenues/expenses:	
Federal and state grants	40,223
Interest and fiscal charges	(1,563)
Total non-operating revenues/expenses	38,660
Change in net assets	(49,090)
Net assets at beginning of year	-
Neta assets at end of year	$ (49,090)

The charts below illustrate the revenues and expenses for the Academy during fiscal 2005.

2005 Revenues



2005 Expenses



Debt Administration

At June 30, 2005, the Academy had $19,340 in loan payable. All of which is due within one year. The following table summarizes the loan payable outstanding:

Outstanding Debt, at Year End

	Governmental Activities 2005
Loan payable	$ 19,340

See Note 6 to the basic financial statements for additional information on Academy's debt administration.

Current Financial Related Activities

Enrollment for the Academy has climbed to approximately 140 students for fiscal year 2006. This is a 29.63% increase over last years count. Growth of this magnitude can be attributed to not only a boost in marketing efforts, but also the increased awareness and acceptance of charter schools as viable alternatives for educational opportunities for Ohio students.

Foundation and DPIA collections are the primary source of funding received by Academy representing 94.82% of total operating revenues. Academy also received state and federal restricted grant and aid which comprised 100.00% of non-operating revenue. The majority of this aid came from the Ohio Department of Education in the form of Title I and IDEA-B funds. These monies were used to finance educational opportunities to those students participating in the Academy's programs.

Payroll and fringe benefits totaled $390,231 or 58.90% of total revenues and 55.62% of the expenses. Purchased services expense includes expenses incurred from fees for building rental, training and consulting, primarily.

Contacting the Academy's Financial Management

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

BASIC
FINANCIAL STATEMENTS

A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO

STATEMENT OF NET ASSETS/(DEFICIT)
JUNE 30, 2005

Assets:		
Current Assets:		
Equity in pooled cash and cash equivalents. . .	$	35,369
Receivables:		
Accounts		3,234
Intergovernmental		6,768
Total assets		45,371
Liabilities:		
Current Liabilities:		
Accounts payable.		2,005
Accrued wages and benefits		47,826
Pension obligation payable		11,940
Intergovernmental payable		10,149
Loan payable		19,340
Compensated absences		3,201
Total liabilities		94,461
Net Assets:		
Restricted for:		
Federally funded programs		3,080
Unrestricted		(52,170)
Total net assets/(deficit)	$	(49,090)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS/(DEFICIT)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Operating revenues:	
State foundation	$ 590,076
Tuition and fees.	1,360
Charges for services.	16,712
Other.	4,166
Total revenues	612,314
Operating expenses:	
Salaries and wages	314,257
Fringe benefits	75,974
Purchased services	156,675
Materials and supplies	92,724
Other.	60,434
Total expenses	700,064
Operating loss	(87,750)
Non-operating revenues/(expenses):	
Federal and state grants	40,223
Interest and fiscal charges	(1,563)
Total non-operating revenues/(expenses)	38,660
Change in net assets.	(49,090)
Net assets at beginning of year	-
Net assets/(deficit)at end of year.	$ (49,090)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

A+ ARTS ACADEMY
FRANKLIN COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Cash flows from operating activities:		
Cash received from foundation	$	590,076
Cash received from tuition and fees		1,360
Cash received from sales/charges for services		16,712
Cash received from other operations.		932
Cash payments for salaries and wages		(251,290)
Cash payments for fringe benefits		(65,825)
Cash payments for purchased services.		(154,670)
Cash payments for materials and supplies		(92,724)
Cash payments for other expenses		(60,434)
Net cash used in operating activities		(15,863)
Cash flows from noncapital financing activities:		
Federal and state grants.		33,455
Issuance of loans		69,340
Principal retirement.		(50,000)
Interest and fiscal charges.		(1,563)
Net cash provided by noncapital financing activities		51,232
Net cash provided by capital and related financing activities		17,777
Net increase in cash and cash equivalents		35,369
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year.	$	35,369
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss.	$	(87,750)
Changes in assets and liabilities:		
(Increase) in accounts receivable		(3,234)
Increase in accounts payable.		2,005
Increase in accrued wages and benefits		47,826
Increase in compensated absences payable		3,201
Increase in intergovernmental payable.		10,149
Increase in pension obligation payable.		11,940
Net cash used in operating activities.	$	(15,863)

NOTE 1 - DESCRIPTION OF THE SCHOOL

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

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

The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the Academy's one instructional/support facility staffed by four non-certified staff members and ten certificated full time teaching personnel who provide services to 108 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

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

D. Cash

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

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

F. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grants for the fiscal year 2005 received by the Academy was $40,223.

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

G. Estimates

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

H. Compensated Absences Policy

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

NOTE 3 - DEPOSITS

At fiscal year-end, the carrying amount of the Academy's deposits was $35,369 and the bank balance was $35,369. The entire bank balance was covered by federal depository insurance.

NOTE 4 - RECEIVABLES

At June 30, 2005, receivables consisted of accounts receivable and intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of $3,234 and $6,768, respectively.

NOTE 5 - PURCHASED SERVICES

For fiscal year ended June 30, 2005, purchased services expenses were as follows:

Professional services	$ 48,646
Property rental and services	66,203
Utilities	6,020
Training	5,471
Transportation	4,980
Postage, advertising and shipping	25,355
Total	$ 156,675

NOTE 6 - LONG-TERM OBLIGATIONS

The Academy's long-term obligations during fiscal year 2005 were as follows:

	Balance at 06/30/04	Additions	Reductions	Balance at 06/30/05	Due Within One Year
Loan Payable	$ -	$ 69,340	$ (50,000)	$ 19,340	$ 19,340
Compensated absences	-	4,270	(1,069)	3,201	3,201
Total long-term liabilities	$ -	$ 73,610	$ (51,069)	$ 22,541	$ 22,541

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

Loans were obtained during the year in order to maintain operations. There were several amounts loaned to the Academy over the course of the year by the Superintendent which totaled $34,340. The Academy repaid $15,000 of these loans and a balance of $19,340 remains outstanding at year-end and is expected to be repaid over the next year. The Academy also obtained a bank loan on November 3, 2004, in the amount of $35,000 with an interest rate of 4.5% which was paid in full during the fiscal year.

NOTE 7 - OPERATING LEASE-CLASSROOMS

The Academy entered into an agreement with the Flintridge Baptist Church on June 3, 2004, for premises located at 8330 Scottwood Road, Columbus, Ohio 43227 to use for classrooms. The lease began in August 2004 and ended in July 2005. The final lease payment was made in July 2005 for $5,000.

Lease payments for this space totaled $50,000 during fiscal year 2005. The Academy signed a new agreement to lease space at a new location in August 2005 and did not renew the lease with Flintridge Baptist Church.

NOTE 8 - FISCAL AGENT - REYNOLDSBURG CITY SCHOOL DISTRICT

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

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

A. Maintain the financial records of the Academy in the same manner as are financial records of Academy districts, pursuant to rules of the Auditor of State.

B. Comply with the policies and procedures regarding internal financial control of the Academy;

C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

During the fiscal year the Academy accrued cost payable to the Sponsor and paid $17,902.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

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 plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14% of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005 was $6,237, 44% has been contributed for fiscal year 2005. $3,498 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

NOTE 9 - DEFINED BENEFIT PENSION PLAN - (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.

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14% of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The Academy's required contributions for pension obligations to the DB plan for the fiscal year ended June 30, 2005, was $39,534, 80% has been contributed for fiscal year 2005. $7,764 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. No contributions were made to the DC and Combined Plans for fiscal 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Trustees have elected to contribute to Social Security. The Academy's liability is 6.2% of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $2,206 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were $268.739 million and STRS had 111,853 eligible benefit recipients.

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% 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 has been established at $27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were $223.444 million and the target level was $335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of $300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the Academy, the amount to fund health care benefits, including surcharge, equaled $1,528 during the 2005 fiscal year.

NOTE 11 - SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “…the Ohio General Assembly to enact a school funding scheme that is thorough and efficient…”. The Academy is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Medical, Life, Dental and Vision Insurance Benefits

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

B. Compensated Absences

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

NOTE 13 - RISK MANAGEMENT

A. Property and Liability

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

NOTE 13 - RISK MANAGEMENT - (Continued)

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

The Academy owns no real estate, but leases facilities located at 1555 Elaine Road, Columbus, Ohio 43227.

B. Workers' Compensation

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

NOTE 14 - RELATED PARTY TRANSACTIONS

A. Sponsor

As parts of the Academy's contractual agreement with the Sponsor, the Academy is required to pay the Sponsor three percent (3%) of the per pupil allocation paid to the Academy from the State of Ohio for various fiscal services and support. In fiscal year 2005, the Academy paid the governing authority $17,902 during the year.

B. Superintendent

During the fiscal year, the Academy received loans from the Superintendent, Carolyn Berkely, in the amount of $34,340, of which $15,000 was repaid. The balance of $19,340 is expected to be repaid during the fiscal 2006 and is recorded as a current liability in the statement of net assets/(deficit).

NOTE 15 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Academy's program violates the state's 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 for oral argument on November 18, 2003. The effect of this suit, if any, on the Academy is not presently determinable.

NOTE 15 - CONTINGENCIES - (Continued)

C. State Foundation Funding

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

D. The Academy is not currently involved in pending litigation.

NOTE 16 - SIGNIFICANT SUBSEQUENT EVENT

On August 1, 2005, the Academy approved an operating lease for space for conducting class with the St. Philip Church located at 1555 Elaine Road, Columbus, Ohio 43227. The lease will begin on August 15, 2005, and terminate on July 31, 2006.

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

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

We have audited the financial statements of the A+ Arts Academy (the "Academy"), Franklin County, Ohio, a component unit of Reynoldsburg City School District, as of and for the fiscal year ended June 30, 2005, and have issued our report thereon dated December 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 *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered A+ Arts Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters that we have reported to the management of the Academy in a separate letter dated December 16, 2005.

Board of Education
A+ Arts Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether A+ Arts Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated December 16, 2005.

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

Julian & Grube, Inc.

Julian & Grube, Inc.
December 16, 2005

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A+ ARTS ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 21, 2006