



**Auditor of State  
Betty Montgomery**



EXCEL INSTITUTE  
FRANKLIN COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Excel Institute  
Franklin County  
1279 E. Dublin-Granville Road  
Columbus, Ohio 43229

To the Board of Governors:

We have audited the accompanying Balance Sheet of the Excel Institute (the Institute) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Institute'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 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 financial position of the Excel Institute as of June 30, 2003, and the results of operations and its cash flows for the 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 January 12, 2004, on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery  
Auditor of State**

January 12, 2004

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EXCEL INSTITUTE  
FRANKLIN COUNTY

BALANCE SHEET  
AS OF JUNE 30, 2003

**Assets**

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$	50,773
Intergovernmental Receivable		11,728
Prepaid Items		<u>833</u>
Total Current Assets		63,334

Non-Current Assets

Security Deposit		6,000
Fixed Assets (Net of Accumulated Depreciation)		<u>1,309</u>
Total Non-Current Assets		<u>7,309</u>
Total Assets	\$	<u><u>70,643</u></u>

**Liabilities and Equity**

Current Liabilities

Accounts Payable	\$	8,959
Accrued Wages		15,353
Intergovernmental Payable		<u>9,342</u>
Total Liabilities		33,654

Equity

Retained Earnings		<u>36,989</u>
Total Liabilities and Equity	\$	<u><u>70,643</u></u>

*The notes to the financial statements are an integral part of this statement.*

EXCEL INSTITUTE  
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2003

Operating Revenues

Foundation Payments	\$ 204,725
Disadvantaged Pupil Impact Aid	2,717
Other Operating Revenue	<u>400</u>
Total Operating Revenues	<u>207,842</u>

Operating Expenses

Salaries	214,748
Fringe Benefits	46,025
Purchased Services	68,074
Materials and Supplies	22,314
Depreciation	327
Other Operating Expenses	<u>9,955</u>
Total Operating Expenses	<u>361,443</u>

Operating Loss	<u>(153,601)</u>
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Non-Operating Revenues

Federal Grants	158,812
State Grants	3,000
Interest Income	<u>1,640</u>
Total Non-Operating Revenues	<u>163,452</u>

Net Income	9,851
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Retained Earnings Beginning of Year	<u>27,138</u>
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Retained Earnings End of Year	<u>\$ 36,989</u>
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*The notes to the financial statements are an integral part of this statement.*



EXCEL INSTITUTE  
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003

Decrease in Cash and Cash Equivalents

**Cash Flows from Operating Activities**

Cash received from State of Ohio	\$ 209,942
Cash received from Other Operating Revenue	400
Cash Payments to Suppliers for Goods and Services	(92,217)
Cash Payments to Employees for Services	(199,326)
Cash Payments for Employee Benefits	(43,754)
	<u>(43,754)</u>

Net Cash Used in Operating Activities	<u>(124,955)</u>
---------------------------------------	------------------

**Cash Flows from Noncapital Financing Activities**

Operating Grants Received - Federal	151,586
Operating Grants Received - State	3,000
	<u>3,000</u>

Net Cash Provided by Noncapital Financing Activities	<u>154,586</u>
--	----------------

**Cash Flows from Capital and Related Financing Activities**

Proceeds of Loans	1,600
Principal Payments	(1,600)
Payments for Capital Acquisitions	(1,636)
	<u>(1,636)</u>

Net Cash Used for Capital and Related Financing Activities	<u>(1,636)</u>
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**Cash Flows from Investing Activities**

Interest on Investments	<u>1,640</u>
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Net Cash Provided by Investing Activities	1,640
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Net Increase in Cash and Cash Equivalents	22,298
Cash and Cash Equivalents at the Beginning of the Year	<u>28,475</u>

Cash and Cash Equivalents at the End of the Year	<u><u>\$ 50,773</u></u>
--	-------------------------

**Reconciliation of Operating Income (Loss) to Net**

Cash Used for Operating Activities

Operating Loss	\$ (153,601)
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**Adjustments to Reconcile Operating Income (Loss) to**

Net Cash Used for Operating Activities

Depreciation	327
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(4,502)
Increase in Prepaid Items	(833)
Increase in Accounts Payable	8,959
Increase in Accrued Wages	15,353
Increase in Intergovernmental Payable	9,342
	<u>9,342</u>

Total Adjustments	<u>28,646</u>
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Net Cash Used for Operating Activities	<u><u>\$ (124,955)</u></u>
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*The notes to the financial statements are an integral part of this statement.*

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**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003**

**NOTE 1 -- DESCRIPTION OF THE ENTITY**

Excel Institute (the Institute) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Institute is an approved tax-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 Institute's tax-exempt status. The Institute's objective is to provide and coordinate educational, social, recreational, mental, physical, and emotional services to at-risk and typical children in a multi-age learning community that serves the child and the child's family group. With a vision of insuring students receive a holistic and individual educational opportunity that improves their academic performance, students are enrolled in a classroom with a 15-to-1 teacher ratio. Currently, grades 7 through 12 are served. The Institute, 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 Institute may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Institute was approved for operation under a contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 19, 2002. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Institute operates under the direction of a self-appointed six member 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 Institute's one instructional/support facility staffed by 4 non-certified and 6 certificated full time teaching personnel who provide services to 39 students.

The School entered into a fiscal agent agreement with the Lucas County Educational Service Center, (LCESC). The agreement provides that the Treasurer of the LCESC shall serve as the Chief Fiscal Officer of the School.

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Institute have been prepared in conformity with accounting principles generally accepted in the United States of America (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 Institute also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Institute's accounting policies are described below:

**A. BASIS OF PRESENTATION**

*Enterprise Accounting* is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)**

**NOTE 2 – SUMMARY FOCUS/BASIS OF ACCOUNTING (Continued)**

**B. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

The accounting and financial reporting treatment is determined by its 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 balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., 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 used 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 Chapter 5705, unless specifically provided in the Institute's contract with its Sponsor. The contract between the Institute and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5 year forecast which is to be updated on an annual basis.

**D. CASH AND CASH EQUIVALENTS**

All monies received by the Institute are accounted for by the Institute's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Institute's name. Total cash is presented as "cash and cash equivalents with Fiscal Agent" on the accompanying balance sheet.

**E. FIXED ASSETS AND DEPRECIATION**

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the dates received. The Institute maintains a capitalization policy of five hundred dollars. The Institute does not possess any infrastructure.

Depreciation of furniture and equipment are computed using the straight-line method over an estimated useful life of five years.

**F. INTERGOVERNMENTAL REVENUES**

The Institute currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) 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 have been met.

**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. INTERGOVERNMENTAL REVENUES (Continued)**

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Institute must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Institute on a reimbursement basis.

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

Amounts awarded under the above programs for the 2003 school year totaled \$369,254.

**G. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year the services are consumed.

**H. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**I. SECURITY DEPOSIT**

The Institute entered into a lease for the use of the building for the administration of the Institute. A security deposit in the amount of \$6,000 is held by the lessor.

**NOTE 3 -- DEPOSITS**

At June 30, 2003, the carrying amount of the Institute's deposits was \$50,773 and the bank balance was \$68,901. The bank balance was covered by federal depository insurance.

**NOTE 4 -- RECEIVABLES**

Receivables at June 30, 2003, consisted of accounts receivable and intergovernmental (e.g. foundation, DPIA, federal and state grants) receivables. Accounts receivables consist of other miscellaneous types of receipts and are considered collectible in full. Intergovernmental receivables are collectable in full.

**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)**

**NOTE 5 -- FIXED ASSETS**

A summary of the Institute's fixed assets at June 30, 2003, follows:

Furniture & Equipment	\$ 1,636
Less: Accumulated Depreciation	<u>(327)</u>
Net Fixed Assets	<u>\$ 1,309</u>

**NOTE 6 -- RISK MANAGEMENT**

**A. Property and Liability**

The Institute is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, the Institute contracted with American Family Insurance Co. for property and general liability insurance with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate and no deductible.

**B. Worker's Compensation**

The Institute 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.

**NOTE 7 -- DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Institute contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. 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 state statute per 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.

Plan members are required to contribute 9 percent of their annual covered salary and the Institute is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 8.17 percent 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 Institute's required contribution for pension obligations to SERS for the year ended June 30, 2003 was \$4,193; 95.09 percent has been contributed for year 2003. The unpaid contribution for year 2003, in the amount of \$206 is recorded as a liability.

**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)**

**NOTE 7 -- DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System**

The Institute participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system. STRS provides basic 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 East Broad Street, Columbus, Ohio, 43215-3371.

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. 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 of credit 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, 2003, plan member were required to contribute 9.3 percent of their annual covered salaries. The Institute 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 recommendations 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 employer contributions.

The Institute's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003 were \$20,439; 100 percent being paid in 2003. For the year ended 2003, the Institute made an overpayment of \$2,998. No contributions were made to the DC and Combined Plans for fiscal year 2003 by the Academy.

**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)**

**NOTE 8 -- POST-EMPLOYMENT BENEFITS**

The Institute provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation 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.

The State Teachers Retirement Board has 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 law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Institute, this amount equaled \$1,803 for the year ended June 30, 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal period, employer contributions to fund health care benefits were 5.83 percent of covered payroll. 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 year 2003, the minimum pay had been established at \$14,500. For the Institute, the amount to fund health care benefits, including surcharge, was \$7,634 for the year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits as \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

**NOTE 9 -- OTHER EMPLOYEE BENEFITS**

**A. Employee Medical, Dental, and Vision Benefits**

The Institute has contracted through an independent carrier to provide medical, dental, and vision insurance to its full-time employees who work 40 or more hours per week. The Institute pays the full amount of the monthly premiums for all selected coverage (medical, dental, and vision).



**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)**

**NOTE 9 -- OTHER EMPLOYEE BENEFITS (Continued)**

**B. Social Security Tax**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security System. As of June 30, 2003, the Institute has no employees or members of the governing board which contribute to the Social Security System.

**NOTE 10 -- CONTINGENCIES**

**A. Grants**

The Institute received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the school. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Institute at June 30, 2003.

**B. School Funding**

The Ohio Department of Education 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 2003 review found the Institute was overfunded and, accordingly, the Institute's state foundation funding will decrease by \$7,240 for fiscal year 2004. This amount is represented as an intergovernmental payable on the financial statements.

**C. State School Funding Decision**

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 oral arguments were heard on November 18th, 2003. The effect of this suit, if any, on the Excel Institute is not presently determinable.

**NOTE 11 -- FISCAL AGENT**

The Institute entered into a fiscal agreement with the Lucas County Educational Service Center, (LCESC). The service agreement states the Treasurer of the LCESC shall serve as the Chief Fiscal Officer of the Institute. As part of this agreement, the Institute shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the Institute from the State of Ohio foundation payments. For the fiscal year the Institute paid LCESC \$4,167, which is the required amount under the agreement.

**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)**

**NOTE 11 -- FISCAL AGENT (Continued)**

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

- Maintain custody of all funds received by the Institute in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- Maintain all books and accounts of the Institute;
- Maintain all financial records of all state funds of the Institute and follow State Auditor procedures for receiving and expending state funds;
- Assist the Institute in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Institute in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- Pay obligations incurred by the Institute 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 Institute so long as the proposed expenditure is within the approved budget and funds are available.

**NOTE 12 -- PURCHASED SERVICE EXPENSES**

For the fiscal year ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

***PURCHASED SERVICES***

Professional and Technical Services	\$ 48,449
Property Services	12,331
Travel Mileage/Meeting Expense	6,383
Communications	137
Utilities	742
Contracted Craft or Trade Service	<u>32</u>
 Total Purchased Services	 <u>\$ 68,074</u>

**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)**

**NOTE 13 -- OPERATING LEASES**

The Institute entered into a lease for the period June 1, 2003 through June 1, 2008 with Christos Bavelis to lease space to house the Excel Institute Community School. There were no payments for the year ended June 30, 2003. The following summarizes future minimum lease payments under the operating leases at June 30, 2003:

Year Ending June 30	Payments
2004	\$ 72,000
2005	73,000
2006	84,000
2007	85,000
2008	88,000

**NOTE 14 -- BEGINNING RETAINED EARNINGS**

The Institute received \$50,000 from the Ohio Department of Education prior to July 1, 2002 to offset start-up costs. The Institute incurred expenditures of \$22,862 resulting in beginning retained earnings of \$27,138.

Professional and Technical Services	\$ 19,834
Travel Mileage/Meeting Expense	924
Communications	1,589
Contracted Craft or Trade Service	73
Other	<u>442</u>
Total	<u>\$ 22,862</u>

**NOTE 15 -- MANAGEMENT'S PLAN**

For fiscal year 2003, the Institute has an operating loss of (\$153,601), net income of \$9,851, and retained earnings of \$36,989. The Institute has entered into arrangements with the Director and Managing Director as well as the Spring of Life Fund, a separately run organization, to provide non-interest bearing short-term loans to the Institute to assist in meeting the liabilities of the Institute.

Student enrollment has increased from 39 students at the end of fiscal year 2003 to 52 students as of January 12, 2004. The Board has authorized the use of funds to pursue various forms of advertising to increase the number of students enrolled. The Board also has taken action to reduce the budgeted expenditures by making cuts to the staff and administrator salaries. The Institute intends to meet cash flow needs and finance operating losses through grants made available from State and Federal sources as well as local merchant donations. The Board has also approved additional non-interest bearing loans from the Director and Managing Director if the need so arises. The Institute is also looking into various other forms of fund raising that might be done to increase cash flows.

**NOTE 16 -- RELATED PARTY TRANSACTIONS**

The Director of the Institute is a member of the Board for the Spring of Life Fund which made a total of \$11,800 in loans to the Institute (\$700 prior to the balance sheet date and \$11,100 subsequent to the balance sheet date).

**EXCEL INSTITUTE  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)**

**NOTE 17 -- SUBSEQUENT EVENTS**

In July, August and September 2003, loans totaling \$25,500 were made to Turn Key Construction for ADA improvement to the Institute's facility. The loans were derived from the personal funds of the Institute's Director, and were made on behalf of the Institute. Turn Key Construction was to repay the loans to the Director as the Institute paid for services billed. In September 2003, a payment was made in the amount of \$20,000 to Turn Key Construction from Excel Institute for building renovations. In October 2003, the Institute terminated the contract with Turn Key Construction and as of the report date, no monies have been returned to the Director or Managing Director.

Subsequent to the balance sheet date, the Director and Managing Director loaned the Institute a total of \$6,200 to be used for payroll and petty cash for employees of the Institute. The terms of the loan state that when the student body increases to 100 students, the Board of Governors and the Director and Managing Director will come to terms on the repayment of the loan.

In August, September and October 2003, the Institute also received a total of \$11,100 in short-term, non-interest bearing loans from the Spring of Life Fund. The repayment terms of these loans will be discussed and finalized when the student body increased to 100 students.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Excel Institute  
Franklin County  
1279 E. Dublin-Granville Road  
Columbus, Ohio 43229

To the Board of Governors:

We have audited the financial statements of Excel Institute, (the Institute), as of and for the year ended June 30, 2003, and have issued our report thereon dated January 12, 2004. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Institute in a separate letter dated January 12, 2004.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Institute'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 assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Institute's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

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A material weakness is a 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 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. 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 to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the Institute in a separate letter dated January 12, 2004.

This report is intended for the information and use of the management and the Board of Governors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
**Auditor of State**

January 12, 2004

EXCEL INSTITUTE  
FRANKLIN COUNTY

JUNE 30, 2003  
SCHEDULE OF FINDINGS

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

<b>Finding Number</b>	<b>2003-001</b>
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**Monitoring Controls**

Effective monitoring controls over financial operations were not implemented by the Institute's management or Board of Governors. Lack of effective monitoring controls could allow for operational failures and errors to occur without timely detection by management.

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

We recommend the Board develop and implement monitoring controls. Some of these monitoring controls may consist of, but should not be limited to, the following:

- regular review of monthly budgeted and actual figures;
- regular review of financial summaries (detailed revenue, expenditure, and fund balance reports);
- review of key performance indicators;
- review of payable aging reports;
- review of unusual or significant and long outstanding items;
- monitoring grant expenditures in accordance with grant requirements;
- ensuring adequate segregation of duties exist, and;
- review of monthly bank reconciliations.

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**Auditor of State  
Betty Montgomery**

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**EXCEL INSTITUTE**

**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 4, 2004**