MONROE ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

MONROE ACADEMY
LUCAS COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Monroe Academy
Lucas County
c/o Lucas County Educational Service Center
415 Emerald Avenue, 2nd Floor
Toledo, Ohio 43602-1817

To the Sponsor:

We have audited the Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance of Monroe Academy, Lucas County, Ohio, (Monroe) for the year ended June 30, 2000. These financial statements are the responsibility of Monroe's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the third paragraph, 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 audits 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.

We were unable to obtain sufficient, competent evidence to support the claims for reimbursement by Monroe presented in Note 12 to the financial statements. We could not determine the completeness or validity of this disclosure.

Ohio Administrative Code Section 117-2-03 requires Monroe to prepare its annual financial report in accordance with generally accepted accounting principles. As discussed in Note 2, Monroe chose to prepare its financial statements on a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit certain assets, liabilities, and fund equities.

In our opinion, except for the effects of disputed claims as described in Note 12, if any, the financial statements referred to above present fairly, in all material respects, the fund cash balance of Monroe as of June 30, 2000, and its cash receipts and disbursements for the year then ended on the basis of accounting described in Note 2.

As discussed in Note 1 to the financial statements, Monroe suspended operations on February 16, 2000, upon receipt of the notice of termination of its sponsorship agreement. On March 15, 2000, the Sponsor, Lucas County Educational Service Center, re-opened and operated Monroe Academy through the end of the school year. The sponsor officially closed the school at the end of the fiscal 2000 school year.

As discussed in Note 13 to the financial statements, Monroe has not filed for tax exempt status under 501(c)(3) of the Internal Revenue Code. Monroe has made no provision for any potential future tax liability which could result from not obtaining the 501(c)(3) tax exempt status.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2001 on our consideration of Monroe'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.

This report is intended solely for the information and use of the Sponsor as authorized to receive this report under § 117.26, Ohio Revised Code and is not intended to be and should not be used by anyone other than this specified party.

Jim Petro
Auditor of State

June 29, 2001

MONROE ACADEMY
LUCAS COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCE FOR THE YEAR ENDED JUNE 30, 2000

Operating Cash Receipts:	
Foundation Payments	$151,951
Disadvantaged Pupil Impact Aid	63,003
Total Operating Cash Receipts	214,954
Operating Cash Disbursements:	
Personal Services - Salaries	164,265
Fringe Benefits	26,312
Purchased Services	49,587
Supplies and Materials	29,522
Capital Outlay	4,937
Other Operating Expenses	4,875
Total Operating Cash Disbursements	279,498
Excess of Operating Receipts (Under) Operating Disbursements	(64,544)
Non-Operating Cash Receipts:	
Earnings on Investments	1,239
Operating Grants - State	100,000
Total Non-Operating Cash Receipts	101,239
Excess Receipts Over Disbursements	36,695
Cash Balance at Beginning of Year	
Cash Balance at End of Year	**$36,695**

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

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Monroe Academy, Lucas County, (Monroe) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Monroe's objective is to provide a comprehensive elementary education structured on bilingual instruction for the children who come from families where the primary language spoken in the home is not English. Monroe, 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. Monroe may acquire facilities as needed and contract for any services necessary for the operation of the school.

Monroe was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of four years commencing October 1999. The Sponsor is responsible for evaluating the performance of Monroe and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of Monroe [Note 10].

Except as described in the next paragraph, Monroe operated under the direction of a four-member Governing Board. The Governing Board was 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 controlled Monroe's one instructional/support facility staffed by 7 non-certified and 3 certified full time teaching personnel who provides services to 40 students.

CLOSING OF THE SCHOOL

Monroe suspended operations on February 16, 2000, upon receipt of the notice of termination of sponsorship agreement. On March 15, 2000, the Sponsor, Lucas County Educational Service Center, re-opened and operated Monroe Academy through the end of the fiscal 2000 school year.

The sponsor officially closed the school at the end of the fiscal 2000 school year. In accordance with the sponsorship agreement, all remaining assets of Monroe revert to the sponsor.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Although required by Ohio Administrative Code Section 117-2-03 to prepare its annual financial report in accordance with generally accepted accounting principles, Monroe chose to prepare its financial statements on a basis of accounting that is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

B. 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 Monroe's contract with its Sponsor. The contract between Monroe 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash

All monies received by Monroe are accounted for by Monroe's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in Monroe's name.

D. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

E. Intergovernmental Revenues

Monroe participated in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues from these programs are recognized as operating revenues in the accounting period in which they are received.

Monroe also participated in the Charter School Grant Program through the Ohio Department of Education. Under this program, as part of the Lucas County pilot project, the Lucas County Educational Service Center awarded Monroe $100,000 to partially defray school start-up costs. Revenue from this program is recognized as non-operating revenue on the accompanying financial statements.

3. DEPOSITS AND INVESTMENTS

At June 30, 2000, Monroe had a cash balance of $36,695. The bank balance was $42,583. The bank balance was insured by the Federal Depository Insurance Corporation.

4. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Monroe 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 members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and Monroe is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; for the fiscal year June 30, 2000, 5.5 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. Monroe's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2000 was $6,652; 100 percent has been contributed for the fiscal year June 30, 2000.

4. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Monroe 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 benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and Monroe is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 2000. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Monroe's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2000 was $8,634.

5. POSTEMPLOYMENT BENEFITS

Monroe 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 on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs 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 percent of covered payroll. The Governing Board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For Monroe, this amount equaled $11,976 during the 2000 fiscal year.

For SERS, coverage is made available to service retirees with ten or more fiscal 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 year, employer contributions to fund health care benefits were 8.5 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 the fiscal year 2000, the minimum pay has been established at $12,400. For Monroe, the amount to fund health care benefits, including surcharge, equaled $8,684 during the 2000 fiscal year.

6. OTHER EMPLOYEE BENEFITS

Employee Medical, Dental and Vision Benefits

Monroe contracted with a private carrier to provide medical, dental and vision benefits to its full time employees. Monroe paid $200 of the monthly premiums for all coverage and the employee was responsible for the remaining portion.

7. RISK MANAGEMENT

A. Property and Liability

Monroe is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2000, Monroe contracted with Harcum-Hyre Insurance Agency for property and general liability insurance.

Professional liability is protected by Harcum-Hyre Insurance Agency with a $1,000,000 single occurrence limit and $5,000,000 aggregate and no deductible.

B. Workers' Compensation

Monroe 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.

8. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to Monroe. During the fiscal period ended June 30, 2000, Monroe received $151,951 of school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997 decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...," including the State's reliance on local property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

8. STATE SCHOOL FUNDING DECISION (Continued)

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, Monroe is unable to determine what effect, if any, this ongoing litigation will have on its financial operations.

9. CONTINGENCIES

A. Grants

Monroe received financial assistance from 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 funds. Any such disallowed claims from such audits could become liabilities of Monroe.

B. Ohio Community School Program

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on Monroe is not presently determinable.

10. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Monroe Academy. As part of this agreement, Monroe shall compensate the Lucas County Educational Service Center 2 percent (2%) of the per pupil allotments paid to Monroe from the State of Ohio. For fiscal 2000, the sponsor waived this fee through December 1999, and billed and collected $3,407 for January through March 2000.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of Monroe:

1. Maintain custody of all funds received by Monroe in segregated accounts separate from the Sponsor's or any other Community School's funds;

2. Maintain all books and accounts of all funds of Monroe;

3. Maintain all financial records of all state funds of Monroe and follow State Auditor procedures for receiving and expending state funds;

4. Assist Monroe in meeting all financial reporting requirements established by the Auditor of Ohio;

5. Invest funds of Monroe in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with the Sponsor's or any other community school; and

10. FISCAL AGENT (Continued)

6. Pay obligations incurred by Monroe 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 Monroe so long as the proposed expenditure is within the approved budget and available funds.

11. PURCHASED SERVICE EXPENSES

For the fiscal year June 30, 2000, purchased service expenses were payments for services rendered, as follows:

PURCHASED SERVICES	
Professional and Technical Services	$23,933
Property Services	19,632
Communications	1,227
Utilities	4,795
	$49,587

12. DISPUTED CLAIMS

The Sponsor was presented with various requests for reimbursement totaling $27,135 from the Al-Sadeq Islamic Center of Toledo for items claimed to be purchased on behalf of Monroe. As of February 28, 2001, the Sponsor had not honored these claims.

13. TAX EXEMPT STATUS

Monroe has not filed for tax exempt status under 501(c)(3) of the Internal Revenue Code. Monroe has made no provision for any potential future tax liability which could result from not obtaining the 501(c)(3) tax exempt status.

14. SUBSEQUENT EVENT - CLAIMS PAID THROUGH FEBRUARY 28, 2001

The fiscal agent has paid the following claims through February 28, 2001.

Rent	$1,000
Legal Services	3,477
Audit Services	12,594
Unemployment	1,833
Miscellaneous	18
	$18,922

15. BUILDING LEASE

Monroe entered into a one year building lease with the Al-Sadeq Islamic Center on September 14, 1999 for school facilities for $30,000 payable at $2,500 per month. Monroe paid $19,632 (see Note 11) through February 16, 2000 when the school suspended operations.

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

Monroe Academy
Lucas County
c/o Lucas County Educational Service Center
415 Emerald Avenue, 2nd Floor
Toledo, Ohio 43602-1817

To the Sponsor:

We have audited the financial statements of Monroe Academy (Monroe) for the year ended June 30, 2000, and have issued our report thereon dated June 29, 2001, which was qualified due to the scope of our work not being sufficient to conclude on the completeness or validity of certain claims disclosed in the notes to the financial statements. We also noted that Monroe suspended operations on February 16, 2000, the Sponsor re-opened and operated Monroe Academy through the end of the school year, the sponsor officially closed the school at the end of the fiscal 2000 school year and that Monroe had not obtained tax exempt status under 501(c)(3) of the Internal Revenue Code. Except as described in this paragraph, 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 Monroe'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 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-10148-001 through 2000-10148-003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Monroe'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 certain matters involving the internal control over financial reporting and its operation that we consider to be 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 Monroe's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2000-10148-004 and 2000-10148-005.

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 believe the reportable conditions described above are not material weaknesses.

This report is intended for the information and use of the Sponsor and is not intended to be and should not be used by anyone other than this specified party.

Jim Petro
Auditor of State

June 29, 2001

SCHEDULE OF FINDINGS
JUNE 30, 2000

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

FINDING NUMBER 2000-10148-001

Finding for Recovery

Ohio Revised Code § 117.28 requires audit reports to set forth all instances of any public money which has been illegally expended

In September 1999, an invoice payable to the Al-Sadeq Islamic Center was submitted for reimbursement for various purchases from Home Depot for items allegedly purchased for school purposes. Included in these purchases were three storm doors identified by the manager of Home Depot to be “36" Classic View residential storm doors with engraved border” (Item #092304095622) priced at $222.00 each.

The contractor in charge of renovating the school does not recall any storm doors being installed at the school and added that any doors installed at the school would be required by code to be “fire rated”. The doors in question are intended for residential use.

These doors were observed by officials of the Lucas County Educational Service Center, Monroe Academy’s sponsor, on the personal residence of Zein Ismail, Director of Al-Sadeq. Mr. Ismail has not disputed this assertion.

In accordance with the foregoing facts, a finding for recovery is hereby returned against Zein Ismail in the amount of $666.00 and in favor of the Monroe Academy Community School.

FINDING NUMBER 2000-10148-002

Noncompliance Citation

Ohio Revised Code § 3314.03 (A) (10) requires the School’s classroom teachers be licensed in accordance with §§ 3319.22 to 3319.31 of the Revised Code.

Monroe Academy employed 10 teachers and Monroe was able to verify only 3 teachers’ certificates. There was no supporting documentation (certificates) to back up the list of other teachers who are required to be certified.

FINDING NUMBER 2000-10148-003

Noncompliance Citation

Ohio Revised Code § 121.22 requires Monroe Academy to take all official actions and to conduct all deliberations upon official business in open meetings, unless the subject matter is specifically exempted by law. If further outlines that Monroe Academy must establish a reasonable method by which any person can determine the time and place of all regular meetings. And lastly, it requires the minutes of the meetings or special meetings to be promptly prepared, filed and maintained and approved by the governing authority.

The Governing Board has not taken all official action, such as granting pay increases, approving pay rates, and hiring new employees through the course of open meetings. In addition, there was not a minute record before November 1999.

FINDING NUMBER 2000-10148-004

Reportable Condition - Effective System of Internal Controls

Monroe has not established formalized procedures for the payroll, purchasing and fixed assets processes, resulting in an unfavorable control environment over these functions. The following control weaknesses were noted:

Payroll

- All employees were hired and pay rates negotiated by the Director with no formalized approval by the Board;
- No documentation was maintained showing hours worked for hourly employees or attendance records for contracted employees to support payments made to these employees;
- Employees or independent contractors performing work at Monroe were often paid in cash from the petty cash account;
- There was no evidence that background checks were performed on all prospective employees.

Purchasing

- There was no review process in place to ensure that invoices submitted were legitimate school expenditures;
- There was no prior authorization of purchases by the Director or the Board;
- Large purchases were made from petty cash, thereby circumventing the review process of the fiscal agent

Fixed Assets

- Monroe did not develop a fixed asset accounting system which maintained total fixed asset listings, by location, with tag identification numbers and other information.
- Monroe did not implement procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the fiscal year.

FINDING NUMBER 2000-10148-005

Reportable Condition - Tax Exempt Status

Monroe did not apply to the Internal Revenue Service to obtain tax exempt status pursuant to 26 USC 501(c)(3). Failure to be approved as a tax exempt entity could result in a federal tax liability to Monroe.

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MONROE ACADEMY

LUCAS 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
AUGUST 14, 2001