



**Auditor of State
Betty Montgomery**

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Academy of Business and Technology
Lucas County
1462 Woodland Avenue
Toledo, OH 43607-3977

To the Governing Board:

We have audited the Balance Sheet of the Academy of Business and Technology, Lucas County, (the Academy) as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year ended June 30, 2002, 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 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.

The Academy has not obtained an exemption from Federal income taxes. Therefore, its net earnings are subject to such income tax. The accompanying financial statements do not include a provision for income taxes or accrued income taxes, which we believe should be included to conform with accounting principles generally accepted in the United States of America.

Because of the departure referred to in the preceding paragraph, net income and retained earnings are overstated and liabilities for accrued income taxes is understated by amounts which, while material, we are unable to determine.

In our opinion, because of the effects of the matters discussed in the previous two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Academy of Business and Technology, Lucas County, as of June 30, 2002, or the results of operations and its cash flows for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2003 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 8, 2003

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$34,134
Grant Revenue Receivable	381,659
Accounts Receivable	792
Prepaid Items	250
	<hr/>

Total Current Assets 416,835

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)

118,802

Total Non-Current Assets

118,802

Total Assets

\$535,637

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$405,310
Accrued Wages and Benefits Payable	35,397
	<hr/>

Total Liabilities 440,707

Fund Equity

Retained Earnings

94,930

Total Fund Equity

94,930

Total Liabilities and Fund Equity

\$535,637

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

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenues

Foundation Payments	\$1,620,590
Disadvantaged Pupil Impact Aid	280,394
	<hr/>
Total Operating Revenues	1,900,984
	<hr/>

Operating Expenses

Salaries	836,281
Fringe Benefits	235,338
Purchased Services	1,097,240
Materials and Supplies	125,411
Depreciation	50,126
	<hr/>
Total Operating Expenses	2,344,396
	<hr/>
Operating Loss	(443,412)
	<hr/>

Non-Operating Revenues

Grants Received - Federal	261,183
Grants Received - State	9,000
	<hr/>
Total Non-Operating Revenues	270,183
	<hr/>
Net Loss	(173,229)
	<hr/>
Retained Earnings at Beginning of Year	268,159
	<hr/>
Retained Earnings at End of Year	\$94,930
	<hr/> <hr/>

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

ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$1,900,984
Cash Payments to Suppliers for Goods and Services	(1,206,189)
Cash Payments to Employees for Services	(824,225)
Cash Payments for Employee Benefits	(183,818)
Cash Payments for Other Operating Uses	<u>(22,278)</u>

Net Cash Used for Operating Activities (335,526)

Cash Flows from Noncapital Financing Activities

Grants Received - Federal	120,362
Grants Received - State	<u>4,000</u>

Net Cash Provided by Noncapital Financing Activities 124,362

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(30,463)</u>
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Net Cash Used for Capital and Related Financing Activities (30,463)

Net Decrease in Cash and Cash Equivalents (241,627)

Cash and Cash Equivalents at the Beginning of the Year 275,761

Cash and Cash Equivalents at the End of the Year \$34,134

**Reconciliation of Operating Loss to
Net Cash Used for Operating Activities**

Operating Loss (\$443,412)

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Depreciation	50,126
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	7,612
(Increase) in Prepaid Items	(250)
Increase in Accounts Payable	38,877
Increase in Accrued Wages and Benefits Payable	<u>11,521</u>

Total Adjustments 107,886

Net Cash Used for Operating Activities (\$335,526)

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

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**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

The Academy of Business and Technology (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's objective is to prepare all students to be successful citizens, cooperative workers and profitable entrepreneurs by developing their unique potential. This program is offered for students in kindergarten through eighth grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the University of Toledo Charter School Council (the Sponsor) for a period of five years commencing August 15, 1999. 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. In consideration of permitting the creation of the Academy, for the time, organization, oversight, fees and costs of the Sponsor, the Academy makes annual payments of 3 percent of the total state and federal funds received each year to the Sponsor.

The Academy operates under the direction of a five-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 Academy's two instructional/support facilities staffed by 8 non-certified personnel and 17 certificated full time teaching personnel who provide services to 359 students.

The Governing Board has entered into a management contract with Charter School Administration Services, Inc. (CSAS), to provide consulting services including teacher training, curriculum development, financial management, and State relations (See Note 15).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board 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 Academy'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.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and 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. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. 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 Academy's contract with its Sponsor. The contract between the Academy 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 the Academy are accounted for by the Academy's management company, the Charter School Administrative Services, Inc. (CSAS), which serves as the Academy's fiscal agent. All cash received by the fiscal agent is maintained in a bank account in the Academy's name. Monies for the Academy are maintained in this account.

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

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 as of the dates received. The Academy does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues 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 and they are earned and measurable.

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 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.

The Academy also participates in various state and federal operating grants. Grants awarded in 2002 included the following: Title I for \$106,078, Title II for \$2,573, Title IV for \$1,595, Title VI for \$937, Federal Sub Grant Phase II for \$150,000, and EMIS for \$5,000. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2002 year totaled \$2,171,167.

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2002, including: accounts payable and salary payments made after year-end that were for services rendered in fiscal year 2002. Certain teaching personnel are paid year round, however payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2002 for all salary payments made to teaching personnel during the summer of 2002.

3. DEPOSITS AND INVESTMENTS

At June 30, 2002, the carrying amount of the Academy's deposits was \$34,134 and the bank balance was \$191,570. At June 30, 2002, \$91,570 of deposits were not insured or collateralized.

4. RECEIVABLES

Receivables at June 30, 2002, consisted of accounts (e.g. miscellaneous receipts) which are considered collectible in full and grant revenue receivables which are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2002, follows:

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

5. FIXED ASSETS [continued]

Leasehold Improvements	\$175,280
Equipment	75,348
	<hr/>
	250,628
Less: Accumulated Depreciation	131,826
Net Fixed Assets	<hr/> <hr/>
	\$118,802

6. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the period July 20, 2001 to July 19, 2002, the Academy contracted with Employers Mutual Casualty Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate limit and no deductible. Professional liability is protected by excess insurance coverage with an \$8,000,000 single occurrence limit and \$8,000,000 aggregate and no deductible.

B. Workers' Compensation

The Academy 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.

C. Employee Medical, Dental, Vision, Prescription and Life Benefits

The Academy has contracted with private carriers to provide employee medical, dental, vision, prescription and life insurance to its full time employees who work 40 or more hours per week.

7. DEFINED BENEFIT PENSION PLANS

A. Social Security System

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 the Social Security System. As of June 30, 2002, the Academy has one employee who contributes to the Social Security System.

B. 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 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 established 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.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (continued)

B. School Employees Retirement System (continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; for the year June 30, 2001, 5.46 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$6,585, \$2,423, and \$2,869, respectively; 94.78 percent has been contributed for the fiscal year 2002 and 100 percent for the other years. The unpaid contribution at June 30, 2002, in the amount of \$344, is recorded as a liability.

C. 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 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. The 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 the Academy is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for the year 2001. 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. The Academy's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$67,989, \$50,115, and \$29,007, respectively; 72.98 percent has been contributed for the fiscal year 2002 and 100 percent for the other years. The unpaid contribution at June 30, 2002, in the amount of \$18,369, is recorded as a liability.

8. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are 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 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Academy, this amount equaled \$32,205 during the fiscal year.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

8. POSTEMPLOYMENT BENEFITS (continued)

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 year, employer contributions to fund health care benefits were 8.54 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 fiscal year 2002, the minimum pay has been established at \$12,400. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$11,203 during the year.

9. STATE 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.

10. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2002.

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 law. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues.

C. State Foundation 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. As a result of this review, the Academy's state foundation funding was reduced \$3,918 for fiscal year 2003

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

11. OPERATING LEASES

The Academy entered into a sublease commencing August 1, 1999 for 5 years with "Academy of America", a Michigan non-profit corporation, which leases from "Covenant Development Corporation", to lease space to house the Academy's Woodland campus. Payments made totaled \$41,520 for the fiscal year. The Academy has the option to renew the lease for an additional three-year term, with the rent increase(s) not to exceed four percent.

The Academy entered into a lease for a second facility, the Parkwood campus, with CSAS Real Estate, Inc. commencing August 1, 2001 for 5 years. Payments made totaled \$279,290 for the fiscal year.

The Academy entered into 4 leases for copiers: one commencing July 13, 1999 for 36 months that was upgraded on December 13, 2001 for another 36 months, one commencing March 16, 2000 for 36 months, one commencing July 27, 2001 for 36 months and one commencing November 15, 2001 for 36 months. The copiers are owned by SAVIN Credit Corporation. Payments made totaled \$20,594 for the fiscal year.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2002.

<u>Fiscal Year Ending June 30,</u>	<u>Facility Leases</u>	<u>Copiers</u>
2003	\$345,930	\$4,544
2004	345,930	
2005	308,140	
2006	25,390	
Total minimum lease payments	<u>\$1,025,390</u>	<u>\$4,544</u>

12. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2002, purchased service expenses were payments for services rendered by various vendors, as follows:

Administration Fees to Sponsor (See Note 1)	\$52,772
Advertising	21,320
Consulting Fees	6,756
Insurance	15,082
Leased Equipment	24,887
Maintenance and Repairs	28,601
Management Company Fees (See Note 15)	243,041
Overhead Fees to Management Company (See Note 16)	281,668
Professional Fees	37,083
Rent	320,810
Telephone	29,640
Meeting Expenses	2,754
Utilities	32,826
Total Purchased Services	<u>\$1,097,240</u>

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

13. TAX EXEMPT STATUS

The Academy has not filed for its tax exempt status under § 501(c)(3) of the Internal Revenue Code. The Academy does intend to file for such tax exemption status. The Academy has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.

14. RELATED PARTY

The president of the leasing company (Covenant Development Corp., a 501(c)(3) tax exempt organization) for the Woodland facility that the Academy rents (see below) is a board member of the Academy of Business and Technology. His wife was the principal of the Academy and was paid \$54,469 during the year and resigned on June 15, 2002. The Covenant Development Corp. leases the facility to the Academy of America (Michigan) (a 501(c)(3) tax exempt organization), which sub-leases to the Academy of Business and Technology. Three of the board members of the Academy of Business and Technology are also directors of the Academy of America (Michigan), they are also both board members of the Academy of Dayton Community School, as well as shareholders of Charter School Administration Services, Inc., the management company for the Academy of Business and Technology.

Total rent payments to Academy of America (Michigan) were \$41,520. Total payments to Charter School Administration Services, Inc. were \$524,709, which includes management fees and overhead fees.

Charter School Administration Services, Inc., the Academy's management company, also owns CSAS Real Estate, Inc. who leases the Parkwood facility to the Academy. Total payments to CSAS Real Estate, Inc. were \$279,290 for rent.

15. MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective August 1, 1999 through July 31, 2004, with Charter School Administration Services, Inc. for educational management services, total payments to CSAS were \$243,041 for the fiscal year ended. Payments are current. In exchange for its services, CSAS receives a management fee equal to 12 percent of all revenue sources and is reimbursed for all cost incurred on behalf of the Academy. In addition, the Academy pays CSAS an annual incentive fee in an amount equal to fifty (50%) percent of the excess of revenue over expenditures, which was not collected by CSAS for the year ended June 30, 2002. Terms of the contract require CSAS to provide the following:

A. All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Academy.

B. Implementation and administration of the Educational Program, including the selection and acquisition of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs;

C. All personnel functions, including professional development for the Academy Administrator, all instructional personnel, and support staff.

D. Control, maintenance, and operation of the school building, and the installation of technology integral to the school design.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

15. MANAGEMENT AGREEMENT (continued)

E. All aspects of the business administration of the Academy.

F. Transportation and food service for the Academy.

G. A projected annual budget prior to each school year.

H. Detailed statements of all revenues received, from whatever source, and detailed statements of all direct expenditures for services rendered to or on behalf of the Academy, whether incurred on-site or off-site, upon request.

I. Annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy.

J. Reports on Academy operations, finances, and students' performance, upon request, but not less frequently than four (4) times per year.

K. Any other function necessary or expedient for the administration of the Academy.

16. CONSORTIUM AGREEMENT

On January 14, 2000 the Governing Board approved joining a consortium with eighteen other charter schools and public school academies, each of which is managed by Charter School Administration Services, Inc. under management agreements comparable to the Management Agreement between the Academy and CSAS.

The members of the consortium including the Academy are:

<u>Academy</u>	<u>State of Operation</u>
Academy of Arizona	Arizona
Academy of Business and Technology	Ohio
Academy of Cleveland	Ohio
Academy of Dallas	Texas
Academy of Dayton	Ohio
Academy of Detroit West	Michigan
Academy of Flint	Michigan
Academy of Fulton County	Georgia
Academy of Houston	Texas
Academy of Inkster	Michigan
Academy of Kansas City	Missouri
Academy of Lathrup Village	Michigan
Academy of Lithonia	Georgia
Academy of Michigan	Michigan
Academy of Oak Park	Michigan
Academy of Southfield	Michigan
Academy of Westland	Michigan
Beaumont Charter Academy	Texas
Bexar County Academy	Texas
Cherry Hill School of Performing Arts	Michigan

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

16. CONSORTIUM AGREEMENT (continued)

The Management Agreement between the Academy and CSAS provides for the allocation of indirect costs incurred by CSAS on behalf of the Academy and the other members of the consortium. Based upon the count of students at the Academy and the other members of the consortium as of September 1999, and the experiences of CSAS in both incurring costs for consortium members and allocation of such costs to consortium members, the Academy and CSAS have agreed upon an equitable method of such allocation. Based upon the above count, the Academy shall pay CSAS, for all indirect reimbursable expenses incurred by CSAS on behalf of the Academy and other members of the consortium, for the 2001-2002 school year, in an amount equal to \$67 per month per student enrolled at the Academy, totaling \$281,668 for the school year.



**Auditor of State
Betty Montgomery**

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

Academy of Business and Technology
Lucas County
1462 Woodland Avenue
Toledo, OH 43607-3977

To the Governing Board:

We have audited the financial statements of the Academy of Business and Technology, Lucas County, (the Academy) for the year ended June 30, 2002, and have issued our report thereon dated May 8, 2003. Our report indicated the financial statements were not fairly presented in accordance with accounting principles generally accepted in the United States of America. The Academy did not obtain an exemption from Federal or Local Income taxes and no provision was established for taxes or accrued income taxes at June 30, 2001. 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 of America.

Compliance

As part of obtaining reasonable assurance about whether the Academy'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Academy in a separate letter dated May 8, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 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 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 Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2002-002.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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 consider the reportable condition described above to be a material weakness. We also noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to management of the Academy in a separate letter dated May 8, 2003.

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



Betty Montgomery
Auditor of State

May 8, 2003

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002**

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

FINDING NUMBER 2002-001

Noncompliance

Ohio Revised Code § 3314.03 (A) (10) states all community school classroom teachers are to be licensed in accordance with Ohio Revised Code §§ 3319.22 to 3319.31, except that a community school may engage noncertificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code § 3319.301. A permit must be issued by the Ohio Department of Education to these “noncertificated” persons in order to teach.

Three of the twenty teachers that were tested were not teaching within the Ohio Department of Education certification guidelines for the grades approved by the certificate. Two of the twenty teachers that were tested were not certificated with the Ohio Department of Education. We recommend the Governing Board establish procedures to help ensure all teachers are properly licensed and teaching within their licensed guidelines.

FINDING NUMBER 2002-002

Material Weakness - Tax Exempt Status

The Academy has not applied for tax exempt status with the Internal Revenue Service (IRS). Although the Academy has indicated they are in the process of filing for such status, without approval of the tax exempt status, the net income consequently is subject to taxation by the IRS. Further, the Academy has not filed any tax returns. The accompanying financial statements do not include amounts associated with an income tax liability or associated fines or penalties.

We recommend the Academy establish provisions for federal and local and accrued taxes. We also recommend the Academy immediately file the appropriate tax forms with the IRS, pay any outstanding taxes due and negotiate a settlement concerning any fees and/or penalties which may be assessed.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10148-001	ORC § 117.28 Finding For Recovery Repaid Under Audit - Copier Leases	Yes	Repaid Under Audit.
2001-10148-002	ORC § 117.28 Finding For Recovery Repaid Under Audit - Printer Lease	Yes	Repaid Under Audit.
2001-10148-003	ORC § 117.28 Finding For Recovery Repaid Under Audit - Payroll	Yes	Repaid Under Audit.
2001-10148-004	ORC § 3314.03 (A)(10) teachers not properly certified	No	Not corrected. Reissued as finding number 2002-001.
2001-10148-005	Material Weakness - Fixed Assets	No	Partially corrected. The Academy currently maintains invoices for its fixed assets as a result of the prior year recommendation. Reissued as management letter recommendation.
2001-10148-006	Material Weakness - Tax Exempt Status	No	Not corrected. Reissued as finding number 2002-002.
2001-10148-007	Reportable Condition - Monitoring Federal Programs	Yes	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

ACADEMY OF BUSINESS AND TECHNOLOGY

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
JUNE 17, 2003**