



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
Betty Montgomery**

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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

TERESA A. DOWD SCHOOL
FRANKLIN COUNTY

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**STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

Teresa A. Dowd School
Franklin County
25 S. Front Street, 4th Floor
Columbus, Ohio 43215

We have audited the accompanying Balance Sheet of the Teresa A. Dowd School, Franklin County, Ohio (the School) as of June 30, 2002, the related Statement of Revenues, Expenses and Changes in Accumulated Deficit and Statement of Cash Flows for the year ended June 30, 2002. These financial statements are the responsibility of the School'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.

As discussed in Note 16, the School discontinued operations and dissolved on July 17, 2002.

The Auditor of State has billed the Teresa A Dowd School for audit services provided for fiscal years ended June 30, 2002, 2001 and 2000. As of the date of this report, the Teresa A. Dowd School has been billed a total of \$23,297 and has yet to pay \$20,385.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teresa A. Dowd School, Franklin County, Ohio, as of June 30, 2002, and the results of its operations and the 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 October 28, 2002 on our consideration of the School'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, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

October 28, 2002

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**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

Assets

Current Assets

Cash with Fiscal Agent	\$ 5,993
Accounts Receivable	729
Intergovernmental Receivables	10,889
Prepaid Items	<u>988</u>
Total Current Assets	\$18,599

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>51,926</u>
Total Assets	<u><u>\$70,525</u></u>

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$46,982
Accrued Wages	37,029
Payable to State Pension Systems	5,184
Intergovernmental Payable	<u>34,118</u>
Total Current Liabilities	123,313

Equity

Retained Earnings	
Accumulated Deficit (See Note 3)	<u>(52,788)</u>
Total Liabilities and Fund Equity	<u><u>\$ 70,525</u></u>

The accompanying notes are an integral part of the financial statements.

**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

Operating Revenues

Foundation Payments	\$ 279,075
Disadvantaged Public Impact Aid	91,840
Other Operating Revenues	<u>1,090</u>
Total Operating Revenues	372,005

Operating Expenses

Salaries	559,459
Fringe Benefits	127,095
Purchased Services	177,666
Materials and Supplies	60,082
Depreciation	17,359
Other Operating Expenses	<u>21,157</u>
Total Operating Expenses	<u>962,818</u>

Operating Loss (590,813)

Non-Operating Revenues

Federal Restricted Grants	231,572
State Restricted Grants	1,961
Interest Income	1,860
Contributions and Donations	<u>135,073</u>
Total Non-Operating Revenues	<u>370,466</u>

Net Loss (220,347)

Retained Earnings at Beginning of Year	<u>167,559</u>
Accumulated Deficit at End of Year (See Note 3)	<u><u>\$ (52,788)</u></u>

The accompanying notes are an integral part of the financial statements.

TERESA A. DOWD SCHOOL
FRANKLIN COUNTY

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

Cash Flows used for Operating Activities

Cash received from State Foundation/Disadvantaged Pupil Impact Aid	\$ 370,915
Cash received from Other Sources	1,090
Cash Payments to Suppliers for Goods and Services	(220,751)
Cash Payments to Employees for Services	(540,525)
Cash Payments for Employee Benefits	(107,399)
Cash Payments for Other Operating Uses	<u>(9,460)</u>
Net Cash Used for Operating Activities	<u>(506,130)</u>

Cash Flows provided by Noncapital Financial Activities

Federal Restricted Grants	220,959
State Restricted Grants	1,961
Contributions and Donations	<u>139,589</u>
Net Cash Provided by Noncapital Financing Activities	<u>362,509</u>

Cash Flows used for Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(42,769)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(42,769)</u>

Cash Flows provided by Investing Activities

Cash Received from Interest on Investments	<u>1,860</u>
Net Cash Provided by Investing Activities	<u>1,860</u>

Net Decrease in Cash and Cash Equivalents	(184,530)
Cash and Cash Equivalents at Beginning of Year	<u>190,523</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 5,993</u></u>

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

Operating Loss	\$ (590,813)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Depreciation	17,359
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	4,516
Decrease in Prepaid Items	1,635
Increase in Accounts Payable	16,697
Increase in Accrued Wages	9,467
Increase in Intergovernmental Payable	<u>35,009</u>
Total Adjustments	<u>84,683</u>
Net Cash Used for Operating Activities	<u><u>\$ (506,130)</u></u>

The accompanying notes are an integral part of the financial statements.

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**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

1. DESCRIPTION OF THE ENTITY

The Teresa A. Dowd Community School (Dowd) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Dowd is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Dowd's objective is to provide the individual attention each child needs to experience academic success, adjust socially, and develop self-esteem for children in grades K - 5 whose families, because of personal or employment difficulties are in transition or find themselves without permanent housing. Dowd, 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. Dowd may acquire facilities as needed and contract for any services necessary for the operation of the school.

Dowd was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing August 18, 1999. The Sponsor is responsible for evaluating the performance of Dowd and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

Dowd operates under the direction of a thirteen-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 Dowd's one instructional/support facility staffed by 14 noncertified and 12 certificated full time teaching personnel who provide services to 50 students.

Dowd has entered into a service agreement with the Lucas County Educational Service Center, Lucas County, Ohio to provide certain financial and accounting services and the Treasurer of Lucas County ESC serves as the Chief Financial Officer of Dowd. (See Note 12).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Dowd have been prepared in conformity with generally accepted accounting principles 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. Dowd 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 Dowd'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.

**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus/Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases and decreases 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 Dowd's contract with its Sponsor. The contract between Dowd and its Sponsor does prescribe an annual budget requirement in addition to preparing a five year forecast which is to be updated on an annual basis.

D. Equity in Pooled Cash

All monies received by Dowd are accounted for by Dowd's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in Dowd's name. Monies for all funds of Dowd are maintained in these accounts or temporarily used to purchase short-term investments.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the date received. Dowd maintains a capitalization policy of \$200. Dowd does not possess any infrastructure.

Improvements that materially extend the assets life 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, equipment, and leasehold improvements are computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

F. Intergovernmental Revenues

Dowd currently participates 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 all eligibility requirements are met.

**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

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 they are earned and become measurable.

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

Dowd also participated in the Federal Charter School Grant Program Phase III through the Ohio Department of Education. Under this program, Dowd received \$184,000 to offset start-up cost of the school during the fiscal year ended June 30, 2002. Revenues received from this program are recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under federal grants and entitlements for the 2002 school year totaled \$233,533.

G. Prepaid Items

Prepayments and deferrals represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment.

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.

3. CASH

Dowd's cash is maintained in a separate account with its fiscal agent. The carrying amount of cash at June 30, 2002 was as follows:

Demand Deposits	\$5,917
Petty Cash	<u>76</u>
Total Deposits	<u>\$5,993</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation. Dowd's carrying amount for deposits was \$5,993, the bank balance was \$75,506.

4. RECEIVABLES

Receivables at June 30, 2002, consisted of accounts (e.g., miscellaneous donations) receivable of \$729 and intergovernmental (e.g. federal grant) receivables totaling \$10,889. Accounts receivable are considered collectible in full. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

5. FIXED ASSETS

The following is a summary of fixed assets at June 30, 2002:

<u>Classification</u>	
Furniture & Equipment	\$ 79,777
Leasehold Improvements	<u>7,096</u>
Total	86,873
Less Accumulated Depreciation	<u>(34,947)</u>
Net Fixed Assets	<u>\$ 51,926</u>

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Dowd 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, standalone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 100 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and Dowd is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of Dowd's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. Dowd's required contribution for pension obligations to SERS for the years ended June 30, 2002, 2001, and 2000 were \$8,480, \$7,240, and \$4,422, respectively; the school has contributed \$8,002 for fiscal year 2002. The unpaid contribution as of June 30, 2002, in the amount of \$478, is recorded as a payable to State Pension Systems. As of the date of this report, there were no outstanding obligations due to the Pension Systems.

B. State Teachers Retirement System

Dowd 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit 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 for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Dowd 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit 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 for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Plan members are required to contribute 9.3 percent of their annual covered salary and Dowd is required to contribute 14 percent. 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. Dowd's required contribution for pension obligations to STRS was \$19,152 for fiscal year ending June 30, 2002. The unpaid contributions as of June 30, 2002, in the amount of \$5,722 is recorded as a payable to State Pension Systems. As of the date of this report, there were no outstanding obligations due to the Pension system.

7. POSTEMPLOYMENT BENEFITS

Dowd provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired noncertificated 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 fiscal year June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For Dowd, this amount equaled \$15,915 for the fiscal year ended June 30, 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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 8.45 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 had been established at \$12,400. For Dowd, the amount to fund health care benefits, including surcharge, was \$25,147 for the fiscal year ended June 30, 2002.

**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

7. POSTEMPLOYMENT BENEFITS (Continued)

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, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available or payment of health care benefits is \$315.7 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000 (the latest information available).

8. RISK MANAGEMENT

A. Employees Medical, Dental and Vision Benefits:

Dowd has contracted through an independent agent to provide employee medical, dental, and vision insurance to its full time employees who work 40 or more hours per week.

B. Property and Liability:

Dowd 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 2002, Dowd contracted with Nationwide Agribusiness Insurance Company for property and general liability insurance.

The Education Liability policy is provided by Nationwide Agribusiness Insurance Company with a \$2,000,000 single occurrence limit and \$5,000,000 aggregate limit, with a \$0 deductible.

The Commercial Property policy covers the building and its contents for \$2,000,000 and \$100,000, respectively. This policy is provided by Nationwide Agribusiness Insurance Company with a \$500 deductible.

The Business Computer policy covers the electronic data processing equipment (hardware) for \$20,000. This policy is provided by Nationwide Agribusiness Insurance Company with a \$250 deductible.

The Commercial Crime policy covers public employee dishonesty for \$10,000. This policy is provided by Nationwide Agribusiness Insurance Company with a \$250 deductible.

C. Worker's Compensation:

Dowd 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.

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.

**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

10. CONTINGENCIES

A. Grants

Dowd 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 Dowd at June 30, 2002.

B. Litigation

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 the School is not presently determinable.

11. FISCAL AGENT

The service agreement states that the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of The Teresa A. Dowd Community School. As part of this agreement, Dowd shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to Dowd from the State of Ohio. The total contract payment of \$5,784 was paid during the year in full.

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

Maintain custody of all funds received by Dowd in segregated accounts separate from Lucas County ESC or any other Community School's funds;

Maintain all books and accounts of Dowd;

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

Assist Dowd in meeting all financial reporting requirements established by the Auditor of Ohio;

Invest funds of Dowd 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;

Pay obligations incurred by Dowd 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 Dowd so long as the proposed expenditure is within the approved budget and funds are available; and

Supervise dissolving of Dowd and its assets.

**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

12. PURCHASED SERVICES

For the period July 1, 2001 through June 30, 2002, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$70,030
Property Services	54,325
Travel Mileage/Meeting Expense	7,689
Communications	4,184
Utilities	18,492
Contracted Craft or Trade Services	1,095
Transportation Services	13,719
Other Purchased Services	<u>8,132</u>
Total Purchased Services	<u>\$177,666</u>

13. OPERATING LEASE

Dowd entered into a lease agreement with the Columbus City School District Board of Education for use of the property known as the Franklin Middle School Annex. The premises were used for housing an educational program for homeless children. The term of the lease commenced September 1, 2000 and was renewed August 31, 2001. The lease was renewed for a period of September 1, 2001 until Dowd submitted notice of intent to cancel after dissolving operations on July 17, 2002. The monthly charge for rental is \$2,000 payable the first of each month. Dowd is responsible for the maintenance, utilities, repairs, remodeling, redecorating, inspections, insurance, and damages to the premises.

14. FULL-TIME EQUIVALENCY REVIEWS

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by Dowd. These reviews are conducted to ensure that Dowd reports accurate student data to the State, upon which foundation funding is calculated. The conclusions of this review resulted in an overpayment to Dowd in the amount of \$6,457. This amount is reflected as an accounts payable at June 30, 2002.

15. DISCONTINUED OPERATIONS/SUBSEQUENT EVENTS

- A. On July 17, 2002, Dowd discontinued operations and dissolved due to a lack of funding support. Dowd had limited financial activity through October 28, 2002. Dowd had an accumulated deficit of \$52,788 as a result of increased operating costs without increased enrollment, donations, and other funding sources.
- B. As of October 10, 2002, the process of selling fixed assets, paying federal, state, and payroll agencies, and making final distributions to vendors was being completed by the Lucas County Education Service Center, the fiscal agent.
- C. Dowd had an auction to dissolve its assets on August 1, 2002 and the sale generated \$11,626.40.

**TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

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

15. DISCONTINUED OPERATIONS/SUBSEQUENT EVENTS (Continued)

D. As of October 28, 2002, Dowd owed \$65,797 to vendors for goods and services rendered. The contact between Dowd and the (sponsor) Department of Education did not indicate who would be responsible for any unpaid obligations. Following is a list of these vendors and the amounts due from Dowd:

VENDOR	AMOUNT
Developmental Resources	\$218
Directions for Youth	4,861
Jani-King of Columbus	1,850
Sonitrol of Central Ohio	280
Renaissance Learning, Inc.	1,521
Columbus Board of Education	2,948
Children's Hunger Alliance	1,136
Columbus Christmas in April	2,628
McNaughton-McKay Electric Company	7,206
Scholastic Inc	40
Waco Scaffolding	2,823
Greater Columbus Arts Council	10,000
Auditor of State	20,385
Ohio Department of Education	<u>9,901</u>
Total	<u>\$65,797</u>

E. The following table represents the cash activity of Dowd from July 1, 2002 through October 28, 2002.

Beginning Balance July 1, 2002	\$5,993
Receipts	183,919
Disbursements	<u>189,908</u>
Ending Balance October 28, 2002	\$4

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STATE OF OHIO
OFFICE OF THE AUDITOR

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

Teresa A. Dowd School
Franklin County
25 S. Front Street, 4th Floor
Columbus, Ohio 43215

We have audited the financial statements of the Teresa A. Dowd School, Franklin County, Ohio, (Dowd) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 28, 2002. Dowd discontinued operations and dissolved on July 17, 2002. The Auditor of State has billed the School for audit services provided for fiscal years ended June 30, 2002, 2001 and 2000. As of the date of this report, Dowd has been billed a total of \$23,297 and has yet to pay \$20,385. 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 School'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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dowd'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 School'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 2002-10625-001.

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 condition described is not a material weakness.

Teresa A. Dowd School
Franklin County
Report on Compliance and on Internal Control Required by
Government Auditing Standards
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

JIM PETRO
Auditor of State

October 28, 2002

**THE TERESA A. DOWD SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

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

Finding Number	2002-10625-001
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Dowd and the Sponsor did not adequately safeguard fixed assets owned by Dowd between the date operations ceased and the disposal date by public sale. Also, Dowd and the Sponsor did not adequately plan the sale of assets to obtain the optimal revenue to liquidate all liabilities outstanding as of the date of closing. The organizational documents of Dowd state, that upon dissolution, the assets must be transferred to another 501c(3) non-profit corporation. Dowd and the Sponsor did not monitor the disposition process adequately to ensure all assets not sold at the public sale were transferred to another non-profit corporation. These weaknesses could allow for loss of assets to occur.

Although Dowd authorized or empowered the Lucas County Educational Service (the fiscal agent) by resolution dated July 17, 2002 to act as liquidators, Dowd and or the Sponsor should have taken actions to properly monitor the disposition and to safeguard assets prior to and after the liquidation sale. Unsold assets still remain in the possession of Dowd and the Sponsor should take steps to properly recover any remaining assets.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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TERESA A. DOWD SCHOOL

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, 2003**