BRIDGES COMMUNITY ACADEMY
SENECA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

BRIDGES COMMUNITY ACADEMY
SENECA COUNTY

TABLE OF CONTENTS

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INDEPENDENT ACCOUNTANTS' REPORT

Bridges Community Academy
Seneca County
190 St. Francis Avenue
Tiffin, Ohio 44883-3475

To the Governing Board:

We have audited the accompanying financial statements of the business-type activities of the Bridges Community Academy, Seneca County, (the Academy), as of and for the year ended June 30, 2005, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

April 27, 2006

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

The discussion and analysis of the Bridges Community Academy's (the Academy) financial performance provides and overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of existence for the Academy and the first year of adoption of the new reporting model, comparative prior year information does not exist. Subsequent reports will include the comparative information.

Financial Highlights

- In total, the Academy ended its first year with total assets of $166,766.
- The Academy's activities reflect an operating loss of $33,019.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

Statement of Net Assets

One of the most important questions asked about the Academy's finances is, "Is the Academy better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Academy as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Academy's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

As this is the Academy's first year of operations, only the fiscal year 2005 figures follow:

(Table 1)
Net Assets

	2005
Assets	
Current Assets	$ 81,384
Capital Assets, Net	85,382
Total Assets	166,766
Liabilities	
Current Liabilities	49,380
Total Liabilities	49,380
Net Assets	
Invested in Capital Assets	85,382
Unrestricted	32,004
Total Net Assets	$ 117,386

The largest portion of the Academy's net assets (72.7%) reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The Academy uses capital assets to provide services; consequently, these assets are not available for future spending.

Net Assets of the Academy are $117,386 and unrestricted net assets reflect a healthy positive balance of $32,004.

(Table 2)
Change in Net Assets

		2005
Operating Revenues:		
Sales	$	8,156
Foundation Payments		492,822
Other		10,627
Non-Operating Revenues:		
Federal and State Grants		150,000
Interest		510
Total Revenues		662,115
Operating Expenses		
Salaries		215,804
Fringe Benefits		94,414
Purchased Services		162,645
Materials and Supplies		42,746
Depreciation		15,163
Other Expenses		13,852
Non-Operating Expenses:		
Debt Service:		
Interest and Fiscal Charges		105
Total Expenses		544,729
Increase in Net Assets	$	117,386

The Academy's operating expenses exceeded operating revenues for the first year of operation. The resulting loss from operations is primarily due to startup expenses for the Academy. The Academy will be monitoring operating expenses in the ensuing year to ensure fiscal stability of the organization.

Capital Assets

The Academy has $85,382 invested in capital assets net of depreciation. The most significant purchase of the Academy's capital assets for the 2005 fiscal year was the purchase of computers for student instruction. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

Restrictions and Other Limitations

The future financial stability of the Academy is not without challenges.

The first challenge is the State's economy. The Academy does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the State could result in budgetary cuts to education, which would have a negative impact on the Academy.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to reflect the Academy's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Ms. Dona Kaufman, Director at Bridges Community Academy, 190 St. Francis Avenue, Tiffin, Ohio 44883-3475.

BRIDGES COMMUNITY ACADEMY
SENECA COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets:	
Current Assets:	
Equity in pooled cash	$ 80,137
Accounts receivable	1,247
Total Current Assets	81,384
Non-Current Assets:	
Capital assets:	
Depreciable capital assets, net	85,382
Total Assets	166,766
Liabilities:	
Current Liabilities:	
Accounts payable	2,943
Accrued wages and benefits	38,229
Intergovernmental payable	8,208
Total Current Liabilities	49,380
Net Assets:	
Invested in capital assets	85,382
Unrestricted	32,004
Total Net Assets	$ 117,386

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

BRIDGES COMMUNITY ACADEMY
SENECA COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Enterprise
Operating Revenues:	
Sales	$ 8,156
Foundation payments	492,822
Other revenues	10,627
Total Operating Revenues	511,605
Operating Expenses:	
Salaries	215,804
Fringe benefits	94,414
Purchased services	162,645
Materials and supplies	42,746
Depreciation	15,163
Other	13,852
Total Operating Expenses	544,624
Operating Loss	(33,019)
Non-Operating Revenues (Expenses):	
Interest	510
Federal grants	150,000
Debt service:	
Interest and fiscal charges	(105)
Total Non-Operating Revenues (Expenses)	150,405
Change in Net Assets	117,386
Net Assets Beginning of Year	
Net Assets End of Year	$ 117,386

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

BRIDGES COMMUNITY ACADEMY
SENECA COUNTY

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:	
Cash received from Sales	$ 8,079
Cash received from Foundation Payments	492,822
Cash received from Other Operating Revenues	10,627
Cash payments for Personal Services	(264,951)
Cash payments for Contract Services	(161,405)
Cash payments for Supplies and Materials	(41,443)
Cash payments for Other	(13,452)
Net Cash Provided by Operating Activities	30,277
Cash Flows from Noncapital Financing Activities:	
Cash received from Federal Grants	150,000
Cash received from Proceeds from Notes	30,000
Cash payments for Principal Retirement	(30,000)
Cash payments for Interest and Fiscal Charges	(105)
Net Cash Provided by Noncapital Financing Activities	149,895
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(100,545)
Cash Flows from Investing Activities:	
Interest	510
Net Increase in Cash and Cash Equivalents	80,137
Cash and Cash Equivalents at Beginning of Year	
Cash and Cash Equivalents at End of Year	$ 80,137

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

BRIDGES COMMUNITY ACADEMY
SENECA COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating Loss	$	(33,019)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation		15,163
Changes in Assets and Liabilities:		
(Increase) in Accounts Receivable		(1,247)
Increase in Accounts Payable		2,943
Increase in Accrued Wages and Benefits		38,229
Increase in Intergovernmental Payable		8,208
Total Adjustments		63,296
Net Cash Provided by Operating Activities	$	30,277

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Bridges Community Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through ninth grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any necessary services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Seneca East Local School District (the Sponsor) for a period of one year commencing July 1, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five member Governing Board. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees control the Academy's instructional/support facility staffed by 5 certificated full time teaching personnel and 1 classified staff member who provide services to 86 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) 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 (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Operating statements present increases 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 earned and expenses are recognized when they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the 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 not prescribe a budgetary process for the Academy.

D. Cash

All monies received by the Academy are maintained in separate bank accounts in the Academy's name.

E. Capital Assets

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Improvements are capitalized, the cost 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.

All reported capital assets are depreciated using the straight line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful live of the related capital assets.

Description	Estimated Lives
Furniture, Fixtures and Equipment	10 years
Computer Equipment	5 years

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

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

Amounts awarded under the above named programs for 2005 school year totaled $642,822.

3. DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the Academy's entire bank balance was covered by Federal Depository Insurance and none of it was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

4. RECEIVABLES

Receivables at June 30, 2005, consisted of accounts receivable of $1,247. All receivable are due within one year.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance 07/01/04	Additions	Deletions	Balance 06/30/05
Business-Type Activity				
Capital assets being depreciated:				
Funiture, fixtures, and equipment	$ -	$ 3,219	$ -	$ 3,219
Computer equipment	-	97,326	-	97,326
Total capital assets being depreciated	-	100,545	-	100,545
Less: accumulated depreciation:				
Funiture, fixtures, and equipment		(80)		(80)
Computer equipment	-	(15,083)		(15,083)
Total accumulated depreciation	-	(15,163)	-	(15,163)
Business-type activity capital assets, net	$ -	$ 85,382	$ -	$ 85,382

6. SHORT-TERM DEBT

The Academy's note transactions for the fiscal year ended June 30, 2005, were as follows:

	Interest Rate	Balance 07/01/04	Additions	Deletions	Balance 06/30/05
Business-Type Activity					
Short-term debt:					
Short-term note (Hines)	0.00%	$ -	$ 10,000	$ (10,000)	$ -
Short-term note (KeyBank)	6.75%	-	20,000	(20,000)	-
Business-type activity short-term debt		$ -	$ 30,000	$ (30,000)	$ -

The Hines short-term note was issued on August 30, 2004. Proceeds of the issuance were used to fund operating costs of the Academy in anticipation of the Academy's federal start-up grant funding. The Academy paid the entire principal amount due on October 13, 2004.

The KeyBank short-term note was issued on September 22, 2004. Proceeds of the issuance were used to fund operating costs of the Academy in anticipation of the Academy's federal start-up grant funding. The Academy paid the entire principal amount due on October 15, 2004.

7. 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 fiscal year 2005, the Academy contracted with the Indiana Insurance Company for property and for general liability insurance. There is a $500 deductible for both coverages.

Professional liability is protected by the Indiana Insurance Company with a $1,000,000 single occurrence limit and $2,000,000 aggregate with a $500 deductible.

B. Worker's Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the annual total gross payroll by a factor determined by the State.

8. FISCAL AGENT

The sponsorship contract states that the Academy shall have a designated fiscal officer who shall meet all the requirements as set forth by law including:

- Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- Comply with the policies and procedures regarding internal financial control of the Academy;
- Comply with the requirements and procedures for financial audits by the Auditor of the State.

8. FISCAL AGENT – (Continued)

The Academy entered into a one-year contract on September 1, 2004, with Ace Charter School Services, a division of ACE Software, LLC for fiscal officer services including school treasurer services, financial services, payroll services, and capital asset services. For these services, the Academy is required to pay a non-refundable set up fee of $1,855 and a monthly payment equal to $2,031. The total expense paid under this contract during fiscal year 2005 totaled $20,643.

9. DEFINED BENEFIT PENSION PLANS

A. 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 to members and death and survivor benefits to plan 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined befit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently selected the DC or Combined Plan.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Academy's required contribution for pension obligations for the DB Plan for the fiscal year ended June 30, 2005, was $26,433; 72 percent has been contributed for fiscal year 2005. $18,928 represents the unpaid contribution for fiscal year 2005.

9. DEFINED BENEFIT PENSION PLANS – (Continued)

B. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary and the Academy was required to contribute at an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, was $3,943; 82 percent has been contributed for fiscal year 2005. $703 represents the unpaid contribution for fiscal year 2005.

10. 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 partial 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 funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate. The board currently allocates employer contributions equal to 1.0% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the Academy, this amount equaled $1,888 during fiscal year 2005. For the year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and eligible benefit recipients totaled 111,395.

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. The Board currently allocates employer contributions equal to 3.43% of covered payroll to fund health care benefits. For the Academy, this amount equaled $794 during fiscal year 2005. 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 2005, the minimum pay has been established at $27,400. For the year ended June 30, 2005, net health care costs paid by SERS were $178,221,113, and eligible benefit recipients totaled approximately 58,123.

11. OTHER EMPLOYEE BENEFITS

Insurance Benefits

The Academy has contracted with a private carrier to provide employee health, dental, vision and life insurance. The Academy paid 80% of the monthly premium for fiscal year 2005.

12. 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the Academy at June 30, 2005.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2005, the review was completed in September 2005. As a result of said review, the Academy's state foundation funding will be increased by $6,926 for fiscal year 2006.

C. 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. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18th, 2003. On August 24, 2004 the Court of Appeals rendered a decision that Community Schools are part of the state education system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral arguments occurred November 29, 2005. The effect of this suit, if and on the Academy is not presently determinable.

13. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	$	117,152
Property Services		37,723
Travel Mileage/Meeting Expense		1,053
Communications		3,739
Other Purchase Services		2,978
Total Purchased Services	$	162,645

14. OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into a lease for the period July 15, 2004, through July 14, 2005, with the St. Francis Home, Inc. to house the Academy. Payments made totaled $32,340 for the fiscal year ended June 30, 2005.

15. TAX EXEMPT STATUS

The Academy has not filed for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, and the Academy has made no provisions for any potential future tax liability.

16. RELATED PARTY TRANSACTIONS

A Board Member is the insurance agent from which the Academy acquired insurance during the fiscal year. The Academy paid $7,687 for the insurance policy.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Bridges Community Academy
Seneca County
190 St. Francis Avenue
Tiffin, Ohio 44883-3475

To the Governing Board:

We have audited the basic financial statements of Bridges Community Academy, Seneca County (the Academy) as of and for the year ended June 30, 2005, and have issued our report thereon dated April 27, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine 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 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 Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Academy's management dated April 27, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the management, the Governing Board and the Sponsor. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

April 27, 2006

BRIDGES COMMUNITY ACADEMY
SENECA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

FINDING NUMBER 2005-001

Reportable Condition

Adequate supporting documentation is a key control in the disbursement process to determine if expenditures are for their intended use. Fifteen percent of the disbursement transactions tested were not supported by adequate supporting documentation (i.e. – contractual agreements, invoices or receipts of payment). Lack of adequate supporting documentation could result in funds being spent on unauthorized purchases, incorrect amounts being paid, duplication of payments, and payments made to fictitious vendors. We recommend the Academy require original invoices, or contractual agreements be submitted and attached to the voucher before payment is made.

Auditor of State
Betty Montgomery

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BRIDGES COMMUNITY ACADEMY

SENECA 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
MAY 16, 2006