

Bridges Community Academy

Seneca County, Ohio

Regular Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, Inc.

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Piketon, Ohio 45661

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Mary Taylor, CPA
Auditor of State

Board of Trustees
Bridges Community Academy
190 Saint Francis Ave.
Tiffin, OH 44883

We have reviewed the *Independent Auditor's Report* of the Bridges Community Academy, Seneca County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 to June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Bridges Community Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 20, 2007

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Bridges Community Academy
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For the Fiscal Year Ended June 30, 2006

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Member American Institute of Certified Public Accountants

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Independent Auditor's Report

Bridges Community Academy
Seneca County, Ohio
190 Saint Francis Avenue
Tiffin, Ohio 44883

We have audited the financial statements of the business-type activities of the Bridges Community Academy (the Academy), as of and for the year ended June 30, 2006, 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 *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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Academy, as of June 30, 2006, and the respective changes in financial position and 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 May 18, 2007, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 15 to the basic financial statements, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.



Balestra, Harr & Scherer, CPAs, Inc.

May 18, 2007

Bridges Community Academy
Seneca County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Our discussion and analysis of the Bridges Community Academy's (School's) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School'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 School'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.

Financial Highlights

Net assets increased \$42,504 which represents a 36.2% increase from 2005.

Revenues for fiscal year 2006 were \$833,714 an increase of 20.45% from 2005.

Expenses for fiscal year 2006 were \$791,210 an increase of 37.66% from 2005

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.

One of the most important questions asked about the School's finances is, "Is the School 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 School 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 School's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the School'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 School.

Bridges Community Academy
Seneca County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

A comparative analysis of fiscal year 2006 and 2005 follows:

Net Assets		
	2006	2005
Current Assets	\$147,358	\$81,384
Capital Assets, Net	91,950	85,382
Total Assets	239,308	166,766
Current Liabilities	79,418	49,380
Total Liabilities	79,418	49,380
Net Assets:		
Invested in capital Assets, Net of related Debt	91,950	85,382
Unrestricted	67,940	32,004
Total Net Assets	\$159,890	\$117,386

The largest portion of the School's net assets (57.5%) reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The School uses capital assets to provide services; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets of the School increased \$42,504 and unrestricted net assets reflect a positive balance of \$67,940. The increase in net assets is primarily due to increased enrollment and management of expenses.

Bridges Community Academy
Seneca County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Changes in Net Assets

	2006	2005
Operating Revenues:		
Sales	\$83	\$8,156
Foundation Payments	663,938	492,822
Other Operating Revenues	13,656	40,627
Non-Operating Revenues		
Investment Earnings	1,037	510
State Subsidies	5,000	0
Federal Subsidies	150,000	150,000
Total Revenues	833,714	692,115
Operating Expenses:		
Salaries & Wages	434,422	215,804
Fringe Benefits	126,020	94,414
Purchased Services	168,564	162,645
Materials & Supplies	17,195	42,746
Depreciation	24,774	15,163
Miscellaneous	20,235	43,957
Total Expenses	791,210	574,729
Change in Net Assets	\$42,504	\$117,386

The School's increase in revenue and expenses are the result of increased enrollment. The resulting net income will assist the School in the ensuing year to ensure fiscal stability of the organization.

Capital Assets

The School has \$91,950 invested in capital assets net of depreciation. The most significant purchase of the School's capital assets for the 2006 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).

Bridges Community Academy
Seneca County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Restrictions and Other Limitations

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

The first challenge is the state economy. The School 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 School.

The second challenge facing the School is the future of state funding. On October 25, 2006, the Ohio Supreme Court found the Ohio School Funding system to be constitutional pending some modifications by the legislature. The District is unable to determine what effect, if any, this decision will have on future funding from the State.

The final challenge is the existence of the school in the future. An ongoing lawsuit 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 set for oral argument on November 18th, 2003. The case remains at the Court of Appeals at this time. The effect of this suit, if any, on the School is not presently determinable.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Dona Kaufman, Director at Bridges Community Academy, 190 St. Francis Avenue, Tiffin, Ohio 44883.

Bridges Community Academy
Statement of Net Assets
June 30, 2006

ASSETS:

Current Assets:

Cash and cash equivalents	\$72,278
Receivables:	
Accounts	80
Intergovernmental	<u>75,000</u>
 Total current assets	 <u>147,358</u>

Noncurrent Assets:

Capital Assets, net of accumulated depreciation	<u>91,950</u>
 Total assets	 <u><u>\$239,308</u></u>

LIABILITIES:

Current Liabilities:

Accounts payable	\$1,553
Accrued wages and benefits payable	66,034
Intergovernmental payable	<u>11,831</u>
 Total current liabilities	 <u>79,418</u>
 Total liabilities	 <u>79,418</u>

NET ASSETS:

Invested in capital assets, net of related debt	91,950
Unrestricted	<u>67,940</u>
 Total net assets	 <u><u>\$159,890</u></u>

See accompanying notes to the basic financial statements.

Bridges Community Academy
Statement of Revenues, Expenses and Change in Net Assts
For the Fiscal Year Ended June 30, 2006

OPERATING REVENUES:

Foundation payments	\$663,938
Charges for services	83
Other operating revenue	<u>13,656</u>
 Total operating revenues	 <u>677,677</u>

OPERATING EXPENSES:

Salaries	434,422
Fringe benefits	126,020
Purchased services	168,564
Materials and supplies	17,195
Depreciation	24,774
Miscellaneous	<u>20,235</u>
 Total operating expenses	 <u>791,210</u>

Operating Income / (Loss) (113,533)

NON-OPERATING REVENUES (EXPENSES):

Interest earnings	1,037
State Subsidies	5,000
Federal Subsidies	<u>150,000</u>
 Total non-operating revenues (expenses)	 <u>156,037</u>

Change in net assets 42,504

Net assets, beginning of year 117,386

Net Assets, end of year \$159,890

See accompanying notes to the Financial Statements

Bridges Community Academy
Statement of Cash Flows
For Fiscal Year ended June 30, 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash from Foundation Payments	\$663,938
Cash from charges for services	160
Cash payments to suppliers for goods and services	(186,982)
Cash payments to employees for services and benefits	(527,844)
Other operating expense	(20,402)
Other operating revenue	13,576
	<u>13,576</u>
Net cash used for operating activities	<u>(57,554)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and state subsidies	80,000
	<u>80,000</u>
Net cash provided by noncapital financing activities	<u>80,000</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payment for capital acquisitions	(31,342)
	<u>(31,342)</u>
Net cash used for capital and related financing activities	<u>(31,342)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest earnings	1,037
	<u>1,037</u>
Net cash provided by (used for) investing activities	<u>1,037</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (7,859)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 80,137

CASH AND CASH EQUIVALENTS, END OF YEAR \$72,278

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating Income	(\$113,533)
Adjustments to Reconcile Operating Income to net cash provided by operating activities:	
Depreciation	24,774
Changes in assets and liabilities:	
Decrease in accounts receivable	1,167
Decrease in accounts payable	(1,390)
Increase in accrued wages payable	27,805
Increase in intergovernmental payable	3,623
Increase in compensated absences payable	0
	<u>0</u>
Total adjustments	<u>55,979</u>
Net cash used for operating activities	<u>(\$57,554)</u>

See accompanying notes to the Financial Statements

Bridges Community Academy
Seneca County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

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 Academy 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 Academy 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 Board of Trustees. 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 14 certificated full time teaching personnel and 4 classified staff members who provide services to 118 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 Academy 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.

Bridges Community Academy
Seneca County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

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 pooled and deposited in separate bank accounts in the Academy's name.

E. Capital Assets and Depreciation

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.

Property, plant and equipment 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.

<u>Assets</u>	<u>Years</u>
Furniture and Equipment	10
Computer equipment	5

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 2006 Academy year totaled \$818,938.

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. The carrying value of the Academy's deposits totaled \$72,278, and the bank balance totaled \$76,663, all of which was covered by federal depository insurance; therefore there is no custodial credit risk.

Bridges Community Academy
Seneca County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

3. DEPOSITS (Continued)

The Academy has no deposit policy for custodial credit 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, 2006, consisted of accounts receivable of \$80, and intergovernmental receivable of \$75,000. All receivable are considered fully collectible, and are due within one year.

5. CAPITAL ASSETS

A summary of the Academy's fixed assets at June 30, 2006, follows:

	Balance 07/01/05	Additions	Deletions	Balance 6/30/06
Business-Type Activity				
Capital Assets being depreciated				
Furniture and Equipment	\$3,219	\$0	\$0	\$3,219
Computer Equipment	97,326	31,342	0	128,668
Total capital assets being depreciated	<u>100,545</u>	<u>31,342</u>	<u>0</u>	<u>131,887</u>
Less: Accumulated Depreciation				
Furniture and Equipment	(80)	(322)	0	(402)
Computer Equipment	(15,083)	(24,452)	0	(39,535)
Total accumulated depreciation	<u>(15,163)</u>	<u>(24,774)</u>	<u>0</u>	<u>(39,937)</u>
Business-type activity capital assets, net	<u>\$85,382</u>	<u>\$6,568</u>	<u>\$0</u>	<u>\$91,950</u>

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 fiscal year 2006, the Academy contracted with Indiana Insurance Company for property and for general liability insurance. There is a \$500 deductible for both coverages.

Professional liability is protected by 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.

Bridges Community Academy
Seneca County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

7. DEFINED BENEFIT PENSION PLANS

A. Academy Employees Retirement System

The Academy contributes to the Academy Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the Academy Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to Academy Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3476 or by calling (800) 878-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate, currently 14%. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2006 and 2005 was \$13,136 and \$3,943 respectively. The Academy has contributed \$4,527 for fiscal year 2006, and the remainder due to SERS has been recorded as a payable to State Pension Systems.

B. 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. STRS issues a stand alone financial report that may be obtained by writing to State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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 members 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 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 or the Ohio Revised Code.

Bridges Community Academy
Seneca County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

7. DEFINED BENEFIT PENSION PLANS

B. State Teachers Retirement System (Continued)

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 only entitled to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the member's account balance.

Plan members are 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations to STRS for the years ending June 30, 2006 and 2005 were \$44,132 and \$26,433 respectively. The Academy contributed 73% of required contribution for fiscal year 2006.

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 Academy 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 \$3,676 during fiscal year 2006. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and eligible benefit recipients totaled 119,184.

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 3.42% of covered payroll to fund health care benefits. For the Academy, this amount equaled \$3,472 during fiscal year 2006. 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 2006, the minimum pay has been established at \$35,800. For the year ended June 30, 2006, net health care costs paid by SERS were \$178,751,207 and eligible benefit recipients totaled 59,492.

Bridges Community Academy
Seneca County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

9. OTHER EMPLOYEE BENEFITS

A. 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 2006.

10. 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 Academy 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 State

The Academy entered into a contract with Ace Charter Academy Services, a division of Harris Software Corp. for fiscal services including Academy treasurer services, payroll services, and capital asset services. The total expense paid under this contract during fiscal year 2006 totaled \$20,687.

11. 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 are 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, 2006.

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. On April 23, 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 is set for oral argument 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 effect of this suit, if and on the Academy is not presently determinable.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment date and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. The Academy does not anticipate any material adjustment for fiscal year 2006, as a result of such review.

Bridges Community Academy
Seneca County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

12. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2006, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$ 105,146
Property Services	53,476
Travel Mileage/Meeting Expense	1,277
Communications	5,078
Other Purchased Services	<u>3,587</u>
Total Purchased Services	<u>\$ 168,564</u>

13. TAX EXEMPT STATUS

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

14. RELATED PARTY TRANSACTION

A board member is the insurance agent from which the Academy acquired insurance during the fiscal year. The Academy paid \$8,103 for the insurance policy.

15. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

For Fiscal Year 2006, the Academy implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No.47, *Accounting for Termination Benefits*. The application of these new standards did not have an effect on the financial statements, nor did their implementation require a restatement of prior year balances.

16. SUBSEQUENT EVENT

On October 25, 2006, the Ohio Supreme Court rule (See Note 11) that publicly funded, privately operated Community (i.e. Charter) Schools is constitutional.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Bridges Community Academy
Seneca County, Ohio
190 Saint Francis Avenue
Tiffin, Ohio 44883

We have audited the financial statements of the business-type activities of the Bridges Community Academy (the Academy), as of and for the year ended June 30, 2006, which comprise the Academy's basic financial statements as listed in the table of contents, and have issued our report thereon dated May 18, 2007, in which we indicated the Academy implemented GASB Statements No. 42, 46, and 47. 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.

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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 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. The results of our tests disclosed one instance of material weakness that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item No. 2006-001.

Compliance and Other Matters

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 agreements, 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item No. 2006-002.

We noted certain matters which we have reported to management of the Academy in a separate letter dated May 18, 2007.

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



Balestra, Harr & Scherer, CPAs, Inc.
May 18, 2007

Bridges Community Academy
Seneca County, Ohio
Schedule of Findings
June 30, 2006

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

Finding No.2006-001

Material Internal Control Weakness – Failure to maintain adequate supporting documentation for expenditures

Adequate supporting documentation is a key control in the disbursement process to determine if expenditures are for their intended use. 5% of the disbursements tested were not supported by adequate supporting documentation (invoice, receipts of payments or contractual agreements). The 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. The Academy should require that original invoices or contractual agreements be submitted and attached to the voucher before payment is made.

Client Response:

The Academy will make efforts to ensure that adequate supporting documentation exist for all disbursements.

Finding No.2006-002

Material Citation – Failure to file report in accordance with ORC Section 117.38

Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. It is also important for management to receive timely feedback on the reliability of financial information summarized in the financial statements, notes to the financial statements, and the schedules used to make these management decisions. Although a draft report was filed by November 27, 2006 to meet the requirements of Ohio Revised Code Section 117.38, the Academy's compiled financial report for the year ended June 30, 2006, was not available for audit until May 11, 2007.

The report filed with the Auditor of State on November 27, 2006 was significantly different from the report presented for audit on May 11, 2007. As such, the filed report was in many regard, deficient and misleading.

The Academy and its consultant should establish timelines that make the financial statements, notes to the financial statements, and schedules available to the management, independent auditors and public in a timelier manner.

Client Response:

The Academy will make efforts to ensure compliance will be met.

**BRIDGES COMMUNITY ACADEMY
SENECA COUNTY, OHIO
JUNE 30, 2006**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Failing to obtain adequate supporting documentation in the disbursement process	No	Reissued as finding # 2006-001



Mary Taylor, CPA
Auditor of State

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
JULY 3, 2007**