



Mary Taylor, CPA
Auditor of State

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Auglaize Educational Academy
Auglaize County
1045 Dearbaugh Avenue
Wapakoneta, Ohio 45895

To the Board of Directors:

We have audited the accompanying financial statements of the Auglaize Educational Academy (AEA), Auglaize County, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the AEA'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 opinion.

Ohio Administrative Code § 117-2-03 (B) requires the AEA to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of the Auglaize Educational Academy, Auglaize County, as of June 30, 2008, and the changes in cash financial position, thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2009, on our consideration of the AEA'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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 3, 2009

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The discussion and analysis of the Auglaize Educational Academy's (AEA) financial performance provides an overall review of AEA's financial activities for the fiscal year ended June 30, 2008, within the limitations of cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of AEA's financial performance.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to AEA's cash basis of accounting.

AEA has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing receipts, disbursements, and the related assets and liabilities. Under AEA's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related receipts (such as accounts receivable) and certain liabilities and their related disbursements (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Table 1 provides a summary of AEA's net assets for fiscal year 2008 and fiscal year 2007:

	Table 1		
	Net Assets		
	2008	2007	Change
Assets:			
Current Assets	\$577,480	\$324,196	\$253,284
Net Assets:			
Restricted For:			
Other Purposes		8,190	(8,190)
Unrestricted	577,480	316,006	261,474
Total Net Assets	<u>\$577,480</u>	<u>\$324,196</u>	<u>\$253,284</u>

Net assets increased significantly, in the amount of \$253,284. During fiscal year 2008, total receipts continued to be greater than the disbursements.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2008 and fiscal year 2007.

**Table 2
Change in Net Assets**

	2008	2007	Change
Operating Receipts			
Charges for Services	\$ 28,518		\$ 28,518
Miscellaneous Revenues	2,420		2,420
Foundation	537,677	\$418,475	119,202
Total Operating Revenues	568,615	418,475	150,140
Non-Operating Receipts			
Interest Revenue	11,334	11,802	(468)
Operating Grants	37,645	275,451	(237,806)
Total Non-Operating Receipts	48,979	287,253	(238,274)
Total Receipts	617,594	705,728	(88,134)
Operating Disbursements			
Purchased Services	308,901	327,223	18,322
Materials and Supplies	47,076	62,130	15,054
Other	200	423	223
Capital Outlay	8,133	181,017	172,884
Total Disbursements	364,310	570,793	206,483
Increase in Net Assets	253,284	134,935	118,349
Net Assets of Beginning of Year	324,196	189,261	134,935
Net Assets at End of Year	<u>\$577,480</u>	<u>\$324,196</u>	<u>\$253,284</u>

Foundation receipts increased 28 percent from increased student enrollment. Operating grants decreased 86 percent from receiving the final apportionment of start-up grants in fiscal year 2007.

Disbursements decreased significantly. Software for the offered classes was purchased in fiscal year 2007 as part of the start-up costs.

Budgeting

AEA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Current Issues

AEA began offering virtual classes during fiscal year 2009. AEA charges the students enrolled in these classes a fee for this service.

Contacting AEA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of AEA's finances and to reflect AEA's accountability for the monies it receives. Questions concerning any of the information provided in this report or requests for additional information should be directed to Margaret J. Grimm, Treasurer, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2008**

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	<u>\$577,480</u>
--	------------------

Net Assets:

Unrestricted	<u>577,480</u>
Total Net Assets	<u>\$577,480</u>

See accompanying notes to the basic financial statements.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN NET ASSETS
CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Operating Receipts:

Charges for Services	\$28,518
Miscellaneous Revenue	2,420
Foundation	537,677
Total Operating Receipts	<u>568,615</u>

Operating Disbursements:

Purchased Services	308,901
Materials and Supplies	47,076
Other	200
Capital Outlay	8,133
Total Operating Disbursements	<u>364,310</u>

Operating Loss 204,305

Non-Operating Receipts (Disbursements):

Interest Revenue	11,334
Operating Grants	37,645
Total Non-Operating Receipts (Disbursements)	<u>48,979</u>

Change in Net Assets 253,284

Net Assets at Beginning of Year 324,196
Net Assets at End of Year \$577,480

See accompanying notes to the basic financial statements.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE SCHOOL

Auglaize Educational Academy (AEA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. AEA's objective is to provide education opportunities through a virtual curriculum for students in kindergarten through twelfth grade. AEA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. AEA may acquire facilities as needed and contract for any services necessary for the operation of the school.

AEA was approved for operation under a contract with the Auglaize County Educational Service Center for a five-year period commencing on the first day of the academic year 2003. AEA became operational in November 2004. On June 27, 2008, the Auglaize County Educational Service Center (the Sponsor) renewed the contract for operation with AEA beginning on July 1, 2008, for a five-year period. Auglaize County Educational Service Center is responsible for evaluating the performance of AEA and has the authority to deny renewal of the contract at its expiration. Auglaize County Educational Service Center is also the fiscal agent of AEA with the Treasurer of Auglaize County Educational Service Center performing the role of Treasurer for AEA.

AEA operates under the direction of a six-member Board of Directors made up of the Superintendents from the participating school districts. Auglaize County Educational Service Center does not make up a majority of the Board and cannot impose its will on AEA; therefore, AEA is not a component unit of the Auglaize County Educational Service Center. The Board of Directors is responsible to help create, approve, and monitor AEA's annual budget, develop policies to guide the operation of AEA, and maintain a commitment to the vision, mission, and belief statements of AEA and the children it serves.

During fiscal year 2008, AEA purchased services from the Auglaize County Educational Service Center to provide instructional, professional development, administrative, and curriculum development services for AEA. (See Note 7)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of AEA's accounting policies.

A. Basis of Presentation

AEA's basic financial statements consist of a statement of net assets; statement of cash receipts, cash disbursements, and change in net assets; and a statement of cash flows.

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

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

AEA's financial statements are prepared using the cash basis of accounting. Receipts are recorded in AEA's financial records and reported on the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

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, except for Ohio Rev. Code Section 5705.391(A) which requires the school to prepare a five year projection. The contract between AEA and its Sponsor does prescribe an annual budget requirement.

D. Capital Assets

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

E. Cash and Cash Equivalents

Cash and cash equivalents held by AEA are reflected as "Equity in Pooled Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by AEA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

AEA first applies restricted resources when a disbursement is made for purposes for which both restricted and unrestricted net assets are available. AEA did not have any net assets restricted by enabling legislation at fiscal year end.

G. Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly from the primary activity of AEA. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of AEA. All receipts and disbursements not meeting this definition are reported as non-operating.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

3. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires AEA to prepare its annual financial report in accordance with generally accepted accounting principles. However, AEA prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. AEA can be fined and various other administrative remedies may be taken against AEA.

4. DEPOSITS AND INVESTMENTS

At June 30, 2008, the carrying amount of deposits and the AEA's bank balance was \$577,480. Based on the criteria described in GASB Statement No 40, "*Deposit and Investment Risk Disclosure*," as of June 30, 2008, \$17,064 of AEA's bank balance of \$577,776 was exposed to custodial risk.

Custodial credit risk is the risk that in the event of bank failure, the AEA will not be able to recover the deposits. All deposits in excess of FDIC coverage are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at members banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specified collateral held at the Federal Reserve Bank in the name of the AEA.

The AEA had 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 AEA 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 secure.

5. RISK MANAGEMENT

AEA 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. During fiscal year 2008, AEA had the following insurance coverage provided through the Auglaize County Educational Service Center:

Coverage provided by Schools of Ohio Risk Sharing Authority is as follows:

General Liability	\$3,000,000
Automobile Liability	3,000,000
Building and Contents	2,990,066

6. FISCAL AGENT

The agreement with the Auglaize County Educational Service Center states the Treasurer of the Auglaize County Educational Service Center shall serve as the fiscal officer of AEA. The Treasurer of the Auglaize County Educational Service Center shall perform the following functions while serving as the Treasurer of AEA:

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

6. FISCAL AGENT (Continued)

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

7. RELATED PARTY TRANSACTIONS

During fiscal year 2008, purchased services and materials and supplies were obtained from the Auglaize County Educational Service Center by AEA, in the amount of \$318,396. The amount of these purchased services and materials and supplies was as follows:

<u>Service</u>	<u>Amount</u>
Salaries	\$176,800
Fringe Benefits	36,152
Purchased Services	65,300
Materials and Supplies	32,011
Capital Outlay	8,133
Total	<u>\$318,396</u>

8. CONTINGENCIES

A. Grants

AEA received financial assistance from federal and state agencies in the form of grants. The expenditure 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of AEA at June 30, 2008.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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 information pertaining to any potential adjustment is not available at this time.

C. Litigation

There are currently no matters in litigation with the AEA as a defendant.



Mary Taylor, CPA

Auditor of State

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

Auglaize Educational Academy
Auglaize County
1045 Dearbaugh Avenue
Wapakoneta, Ohio 45895

To the Board of Directors:

We have audited the financial statements of the Auglaize Educational Academy, Auglaize County, (the AEA), as of and for the year ended June 30, 2008, and have issued our report thereon dated March 3, 2009, wherein we noted the AEA uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 AEA's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the AEA's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the AEA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the AEA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the AEA's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the AEA's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that were reported to the AEA's management in a separate letter dated March 3, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the AEA'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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

AEA's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Directors and the community school's sponsor. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 3, 2009

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Noncompliance - Reporting

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03(B) and Community School Contract (10/15/02) Article III B Financial Plan requires the Auglaize Educational Academy (AEA) to prepare its annual financial report in accordance with generally accepted accounting principles.

AEA prepared its financial statements and notes following the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time. Pursuant to Ohio Rev. Code Section 117.38, the AEA may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Auglaize Educational Academy should prepare their financial statements in accordance with generally accepted accounting principles.

Officials' Response:

Our Board of Directors has determined that the additional cost required to prepare and audit GAAP statements cannot be justified.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Ohio Revised Code Section 117.38 Ohio Adm. Code Section 117-2-03(B) - Failure to prepare annual financial report in accordance with generally accepted accounting principles.	No	Repeated as finding 2008-001.



Mary Taylor, CPA
Auditor of State

AUGLAIZE EDUCATIONAL ACADEMY

AUGLAIZE 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 31, 2009**