



Dave Yost • Auditor of State

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
ALLEN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Auglaize County Educational Academy
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, Ohio 45895

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Auglaize County Educational Academy, Auglaize County, Ohio (AEA), as of and for the fiscal years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the AEA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the AEA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the AEA's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the business-type activities of the Auglaize County Educational Academy, Auglaize County, Ohio, as of June 30, 2014 and June 30, 2013, and the respective changes in cash financial position thereof for the fiscal years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplementary and Other Information

We audited to opine on the AEA's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position and change in net position. This information provides additional analysis and is not a required part of the basic financial statements.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AEA's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

March 9, 2015

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED**

The discussion and analysis of Auglaize County Educational Academy's (AEA) financial performance provides an overall review of AEA's financial activities for the fiscal year ended June 30, 2014, within the limitations of cash basis 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 position for fiscal year 2014 and fiscal year 2013:

**Table 1
Net Position**

	2014	2013	Change
Assets:			
Current Assets	\$304,137	\$512,677	(\$208,540)
Total Net Position	\$304,137	\$512,677	(\$208,540)

Net position decreased by 41 percent. During fiscal year 2014, AEA's cash decreased from an increase in costs for providing services.

Table 2 reflects the change in net position for fiscal year 2014 and fiscal year 2013.

**Table 2
Change in Net Position**

	2014	2013	Change
Operating Receipts:			
Charges for Services	\$59,528	\$57,239	\$2,289
Foundation	602,109	650,722	(48,613)
Miscellaneous Receipts	605	2,354	(1,749)
Total Operating Receipts	662,242	710,315	(48,073)
Non-Operating Receipts:			
Interest	390	431	(41)
Grants	18,156	99,468	(81,312)
Total Non-Operating Receipts	18,546	99,899	(81,353)
Total Receipts	680,788	810,214	(129,426)

(Continued)

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED**

**Table 2
Change in Net Position
(Continued)**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Operating Disbursements:			
Purchased Services	852,485	840,956	(11,529)
Materials and Supplies	25,750	6,771	(18,979)
Other Disbursements	11,093	28,014	16,921
Total Disbursements	<u>889,328</u>	<u>875,741</u>	<u>(13,587)</u>
Decrease in Net Position	(208,540)	(65,527)	(143,013)
Net Position at Beginning of Year	512,677	578,204	(65,527)
Net Position at End of Year	<u>\$304,137</u>	<u>\$512,677</u>	<u>(\$208,540)</u>

Charges for services increased slightly. Foundation receipts decreased 7 percent from a decrease in enrollment. Grants decreased significantly in fiscal year 2014. There had been a significant amount of drawdowns on federal grants in the prior fiscal year.

The increase in materials and supplies was due to the purchase of textbooks in fiscal year 2014 to cover the offered courses. Other disbursements included the purchase of laptops in fiscal year 2013.

Budgeting

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

Current Issues

AEA has continued to provide training to participating school districts on the services available through AEA.

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 Kristy L. Weaks, Treasurer, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF NET POSITION
CASH BASIS
JUNE 30, 2014**

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$304,137</u></u>
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Net Position:

Unrestricted	<u><u>\$304,137</u></u>
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See Accompanying Notes to the Basic Financial Statements.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE IN NET POSITION
CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Operating Receipts:	
Charges for Services	\$59,528
Foundation	602,109
Miscellaneous Receipts	605
Total Operating Receipts	<u>662,242</u>
Operating Disbursements:	
Purchased Services	852,485
Materials and Supplies	25,750
Other Disbursements	11,093
Total Operating Disbursements	<u>889,328</u>
Operating Loss	<u>(227,086)</u>
Non-Operating Receipts:	
Interest	390
Grants	18,156
Total Non-Operating Receipts	<u>18,546</u>
Change in Net Position	(208,540)
Net Position at Beginning of Year	512,677
Net Position at End of Year	<u><u>\$304,137</u></u>

See Accompanying Notes to the Basic Financial Statements.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF THE SCHOOL

Auglaize County 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 2003 academic year. AEA became operational in November 2004. The contract was subsequently renewed for an additional five-year period commencing on July 1, 2008, and expired on June 30, 2013. The contract has again been renewed for a five-year period commencing on July 1, 2013. 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 2014, AEA purchased services from the Auglaize County Educational Service Center to provide instructional, professional development, administrative, and curriculum development services for AEA.

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. Following are the more significant of the AEA's accounting policies.

A. Basis of Presentation

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

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 position, and financial position. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basis of Accounting

AEA's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, 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, unless specifically provided by AEA's contract with its Sponsor. The contract between AEA and its Sponsor does prescribe an annual budget requirement.

D. 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 position. 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. During fiscal year 2014, AEA's investments consisted of nonnegotiable certificates of deposit, which are reported at cost.

E. Net Position

Net position is reported as restricted when there are limitations imposed on its use 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 position is available.

F. 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.

3. DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, AEA will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$21,172 of the AEA's bank balance of \$307,988 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject AEA to a successful claim by the FDIC.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

4. 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 2014, AEA obtained insurance coverage through the Auglaize County Educational Service Center's insurance policy. Coverage provided by the Schools of Ohio Risk Sharing Authority to the Auglaize County Educational Service Center was as follows:

General Liability:	
Occurrence	\$15,000,000
Aggregate	17,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

5. 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 treasurer of AEA. The Treasurer of the Auglaize County Educational Service Center shall perform the following functions while serving as the Treasurer of AEA:

- 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.

6. RELATED PARTY TRANSACTIONS

In fiscal year 2015, services and supplies were obtained from the Auglaize County Educational Service Center by AEA, in the amount of \$774,080. The amount of these services and supplies was as follows:

	<u>Amount</u>
Salaries	\$532,612
Fringe Benefits	225,651
Purchased Services	14,067
Supplies and Materials	1,750
Total	<u><u>\$774,080</u></u>

7. 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 is 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, 2014.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

7. CONTINGENCIES (Continued)

B. Litigation

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

C. 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 AEA was overpaid \$3,102 in fiscal year 2014 and a refund will be submitted to the Ohio Department of Education.

ODE has identified several community schools and/or STEM schools that made critical data errors between the June payment and the Final #1 payment. As a result, ODE will be running a Final #2 foundation report for community and STEM schools for fiscal year 2014. As of the date of this report, a final list of schools impacted and amounts are not yet available, but ODE believes this will result in receivables to the schools affected

8. COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the AEA to prepare its annual financial report in accordance with generally accepted accounting principles. However, the 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 position / fund balances, and disclosures that, while material, cannot be determined at this time. The AEA can be fined and various other administrative remedies may be taken against the AEA.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

The discussion and analysis of Auglaize County Educational Academy's (AEA) financial performance provides an overall review of AEA's financial activities for the fiscal year ended June 30, 2013, within the limitations of cash basis 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 position for fiscal year 2013 and fiscal year 2012:

Table 1 Net Position			
	2013	2012	Change
Assets:			
Current Assets	\$512,677	\$578,204	(\$65,527)
Total Net Position	\$512,677	\$578,204	(\$65,527)

Net position decreased by 11 percent. During fiscal year 2013, AEA's cash decreased from an increase in costs for providing services.

Table 2 reflects the change in net position for fiscal year 2013 and fiscal year 2012.

Table 2 Change in Net Position			
	2013	2012	Change
Operating Receipts:			
Charges for Services	\$57,239	\$12,975	\$44,264
Foundation	650,722	694,644	(43,922)
Miscellaneous Receipts	2,354	10,472	(8,118)
Total Operating Receipts	710,315	718,091	(7,776)
Non-Operating Receipts:			
Interest	431	640	(209)
Grants	99,468	2,200	97,268
Total Non-Operating Receipts	99,899	2,840	97,059
Total Receipts	810,214	720,931	89,283
			(Continued)

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

**Table 2
Change in Net Position
(Continued)**

	2013	2012	Change
Operating Disbursements:			
Purchased Services	840,956	633,249	(207,707)
Materials and Supplies	6,771	32,775	26,004
Other Disbursements	28,014	33,877	5,863
Total Disbursements	<u>875,741</u>	<u>699,901</u>	<u>(175,840)</u>
Increase (Decrease) in Net Position	(65,527)	21,030	(86,557)
Net Position at Beginning of Year	578,204	557,174	21,030
Net Position at End of Year	<u>\$512,677</u>	<u>\$578,204</u>	<u>(\$65,527)</u>

Charges for services increased 341 percent from participation of school districts in the virtual classes offered by AEA. Foundation receipts decreased 6 percent from a decrease in enrollment. Grants increased significantly in fiscal year 2013 from the drawdown on federal grants that had been awarded in the prior fiscal year.

Disbursements increased significantly. Purchased services increased from the services provided for occupational therapy, physical therapy, and speech services through the Auglaize County Educational Service Center. Materials and supplies were significantly less from the purchase of textbooks in the prior fiscal year to cover the offered courses.

Budgeting

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

Current Issues

AEA has continued to provide training to participating school districts on the services available through AEA.

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 Kristy L. Weak's, Treasurer, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF NET POSITION
CASH BASIS
JUNE 30, 2013**

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	<u>\$512,677</u>
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Net Position:

Unrestricted	<u>\$512,677</u>
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See Accompanying Notes to the Basic Financial Statements.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE IN NET POSITION
CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Operating Receipts:	
Charges for Services	\$57,239
Foundation	650,722
Miscellaneous Receipts	2,354
Total Operating Receipts	<u>710,315</u>
Operating Disbursements:	
Purchased Services	840,956
Materials and Supplies	6,771
Other Disbursements	28,014
Total Operating Disbursements	<u>875,741</u>
Operating Loss	<u>(165,426)</u>
Non-Operating Receipts:	
Interest	431
Grants	99,468
Total Non-Operating Receipts	<u>99,899</u>
Change in Net Position	(65,527)
Net Position at Beginning of Year	<u>578,204</u>
Net Position at End of Year	<u><u>\$512,677</u></u>

See Accompanying Notes to the Basic Financial Statements.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

1. DESCRIPTION OF THE SCHOOL

Auglaize County 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 2003 academic year. AEA became operational in November 2004. The contract was subsequently renewed for an additional five-year period commencing on July 1, 2008, and expired on June 30, 2013. The contract has again been renewed for a five-year period commencing on July 1, 2013. 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 2013, AEA purchased services from the Auglaize County Educational Service Center to provide instructional, professional development, administrative, and curriculum development services for AEA.

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. Following are the more significant of the AEA's accounting policies.

A. Basis of Presentation

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

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 position, and financial position. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

AEA's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, 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, unless specifically provided by AEA's contract with its Sponsor. The contract between AEA and its Sponsor does prescribe an annual budget requirement.

D. 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 position. 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. During fiscal year 2013, AEA's investments consisted of nonnegotiable certificates of deposit, which are reported at cost.

E. Net Position

Net position is reported as restricted when there are limitations imposed on its use 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 position is available.

F. 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.

3. DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, AEA will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$171,423 of the AEA's bank balance of \$521,423 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject AEA to a successful claim by the FDIC.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

4. 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 2013, AEA obtained insurance coverage through the Auglaize County Educational Service Center's insurance policy.

Coverage provided by the Schools of Ohio Risk Sharing Authority to the Auglaize County Educational Service Center was as follows:

General Liability:	
Occurrence	\$12,000,000
Aggregate	14,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

5. 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 treasurer of AEA. The Treasurer of the Auglaize County Educational Service Center shall perform the following functions while serving as the Treasurer of AEA:

- 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.

6. RELATED PARTY TRANSACTIONS

In fiscal year 2013, services and supplies were obtained from the Auglaize County Educational Service Center by AEA, in the amount of \$730,476. The amount of these services and supplies was as follows:

	<u>Amount</u>
Salaries	\$437,081
Fringe Benefits	247,855
Purchased Services	40,107
Supplies and Materials	4,164
Other	1,269
Total	<u>\$730,476</u>

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

7. 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 is 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, 2013.

B. Litigation

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

C. Full Time Equivalency

The Ohio Department of Education (ODE) 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.

8. COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the AEA to prepare its annual financial report in accordance with generally accepted accounting principles. However, the 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 position / fund balances, and disclosures that, while material, cannot be determined at this time. The AEA can be fined and various other administrative remedies may be taken against the AEA.



Dave Yost • Auditor of State

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

Auglaize County Educational Academy
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, Ohio 45895

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of the Auglaize County Educational Academy, Auglaize County, (AEA) as of and for the fiscal years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the AEA's basic financial statements and have issued our report thereon dated March 9, 2015, wherein we noted the AEA uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the AEA's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the AEA's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the AEA's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the AEA's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the AEA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

March 9, 2015

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2014-001

Noncompliance Citation

Ohio Rev. Code § 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 § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Adm. Code § 117-2-03 (B) requires all school districts, including community schools, to file annual financial reports in accordance with generally accepted accounting principles (GAAP). The Auglaize County Educational Academy (AEA) prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38 the AEA may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The AEA should prepare its financial statements according to generally accepted accounting principles to provide users with more complete and meaningful financial statements.

OFFICIALS' RESPONSE: We did not receive a response from Officials to the finding reported above.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-01	Ohio Rev. Code Section 117.38 and Ohio Admin. Code 117-2-03(B) – Failed to file financial statements in accordance with generally accepted accounting principles (GAAP)	No	Repeated as Finding 2014-001



Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Auglaize County Educational Academy
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, Ohio 45895

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Auglaize County Educational Academy (AEA) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on October 25, 2013 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 9, 2015

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Dave Yost • Auditor of State

AUGLAIZE COUNTY EDUCATIONAL VIRTUAL 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
APRIL 2, 2015**