



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

TOLEDO VILLAGE SHULE

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1
Balance Sheet - As of June 30, 2001	3
Statement of Revenues, Expenses, and Changes in Retained Earnings – For the Fiscal Year Ended June 30, 2001	4
Statement of Cash Flows - For the Fiscal Year Ended June 30, 2001	5
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17
Schedule of Prior Audit Findings	19

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Toledo Village Shule
Lucas County
331 14th Street
Toledo, Ohio 43624

To the Governing Board:

We have audited the Balance Sheet of the Toledo Village Shule, Lucas County, (the School) as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year ended June 30, 2001. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2001, and the results of operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As identified in Note 14, the School's sponsor has provided notification of its intent to not renew the Schools Sponsorship agreement for fiscal year 2003. Accordingly, there is substantial doubt about the Schools ability to continue as a going concern.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2002 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

June 4, 2002

This page intentionally left blank.

**TOLEDO VILLAGE SHULE
LUCAS COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$86,236
Accounts Receivable	273
Intergovernmental Receivable	72,078
Accrued Interest Receivable	367
Prepaid Items	<u>22,071</u>

Total Current Assets 181,025

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation) 146,834

Total Assets \$327,859

Liabilities and Fund Equity

Accounts Payable	\$57,271
Accrued Wages Payable	5,857
Intergovernmental Payable	<u>53,851</u>

Total Liabilities 116,979

Fund Equity

Retained Earnings
Unreserved 210,880

Total Liabilities and Fund Equity \$327,859

The notes to the financial statements are an integral part of this statement.

**TOLEDO VILLAGE SHULE
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001**

Operating Revenues

Foundation Payments	\$1,250,650
Disadvantaged Pupil Impact Aid	262,867
Food Services	3,210
Other Operating Revenues	<u>239</u>
Total Operating Revenues	<u>1,516,966</u>

Operating Expenses

Salaries	837,491
Fringe Benefits	259,289
Purchased Services	595,651
Materials and Supplies	47,912
Depreciation	35,446
Other Operating Expenses	<u>15,632</u>
Total Operating Expenses	<u>1,791,421</u>
Operating Loss	<u>(274,455)</u>

Non-Operating Revenues and (Expenses)

Operating Grants - Federal	314,977
Operating Grants - State	38,642
Interest Earnings	1,779
Contributions and Donations	150
Other Non-Operating Revenues	12,781
Interest Charges	<u>(774)</u>
Total Non-Operating Revenues and (Expenses)	<u>367,555</u>
Net Income	93,100
Retained Earnings at Beginning of Year	<u>117,780</u>
Retained Earnings at End of Year	<u><u>\$210,880</u></u>

The notes to the financial statements are an integral part of this statement.

**TOLEDO VILLAGE SHULE
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$1,513,517
Cash Received from Food Services	\$3,176
Cash Payments to Suppliers for Goods and Services	(650,850)
Cash Payments to Employees for Services	(833,288)
Cash Payments to Employee Benefits	(253,193)
	<hr/>
Net Cash Used for Operating Activities	(220,638)

Cash Flows from Noncapital Financing Activities

Operating Grants Received - Federal	321,719
Operating Grants Received - State	31,894
Contributions and Donations	150
Other Non-Operating Revenues	12,781
	<hr/>
Net Cash Provided by Noncapital Financing Activities	366,544

Cash Flows from Capital and Related Financing Activities

Proceeds from Sale of Notes	13,615
Principal Payments	(13,615)
Payments for Capital Acquisitions	(64,289)
Interest Payments and Fiscal Charges	(774)
	<hr/>
Net Cash Used for Capital and Related Financing Activities	(65,063)

Cash Flows from Investing Activities:

Interest on Investments	1,412
	<hr/>
Net Cash Provided by Investing Activities	1,412
	<hr/>
Net Increase in Cash and Cash Equivalents	82,255
Cash and Cash Equivalents at the Beginning of the Year	3,981
	<hr/>
Cash and Cash Equivalents at the End of the Year	<u>\$86,236</u>

(Continued)

TOLEDO VILLAGE SHULE
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

Operating Loss (274,455)

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Depreciation	35,446
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(273)
Increase in Intergovernmental Receivable	(20,282)
(Increase) in Prepaid Items	(11,426)
Increase in Accounts Payable	14,737
Increase in Accrued Wages Payable	4,203
Increase in Intergovernmental Payable	<u>31,412</u>
Total Adjustments	<u>53,817</u>
Net Cash Used for Operating Activities	<u><u>(\$220,638)</u></u>

The notes to the financial statements are an integral part of this statement.

**TOLEDO VILLAGE SHULE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Toledo Village Shule (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status. The School's objective is to provide year-round, holistic educational environment, serving grades K - 6, in which cognitive and creative learning is blended with emotional and social growth, in order to foster students' learning from each other, their families, their communities, and their teachers, thereby integrating students' intellectual, social, and cultural worlds. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing August 12, 1998. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a seven member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the School's two instructional/support facilities staffed by 20 non-certified personnel and 17 certificated teaching personnel who provide services to 281 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

TOLEDO VILLAGE SHULE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received the School are accounted for by the School's Fiscal Director. All cash received by the Fiscal Director is maintained in a bank account in the School's name or temporarily used to purchase short-term investments. For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The School does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

TOLEDO VILLAGE SHULE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been 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 when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$50,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2001 school year totaled \$1,867,136.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At June 30, 2001, the carrying amount of the School's deposits was \$6,235 and the bank balance was \$40,922. The bank balance was covered by federal depository insurance.

The School's investments are categorized to give an indication of the level of risk assumed by the School at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School or its agent in the School's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School's name. The School's investments totaling \$80,001 (cost), which is maintained in a Ready Resource Savings Account (repurchase agreement) and is included in Category 2.

TOLEDO VILLAGE SHULE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

4. RECEIVABLES

Receivables at June 30, 2001, consisted of accounts, intergovernmental (e.g. miscellaneous grants) and accrued interest receivables. Intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. The accounts receivable and the accrued interest are considered collectible in full.

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2001, follows:

Leasehold Improvements	\$97,674
Furniture and Equipment	91,767
Vehicles	35,928
Less: Accumulated Depreciation	<u>(78,535)</u>
Net Fixed Assets	<u><u>\$146,834</u></u>

6. RISK MANAGEMENT

A. Property and Liability

The School 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 the fiscal year ended June 30, 2001, the School contracted with Harcum-Hyre Insurance Agency for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate limit and no deductible.

Professional liability is protected by insurance coverage through the Harcum-Hyre Insurance Agency with a \$2,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible. Vehicle coverage is protected by Harcum-Hyre Insurance Agency with a \$1,000,000 combined single limit of liability.

B. Workers' Compensation

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

C. Employee Medical, Dental, and Vision Benefits

The School has contracted through the Sponsor to provide employee medical, dental, and vision insurance to its full time employees who work 40 or more hours per week.

TOLEDO VILLAGE SHULE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; for the year June 30, 2001, 4.2 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$12,868, \$7,675, and \$9,162, respectively; 27.55 percent has been contributed for the fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution at June 30, 2001, in the amount of \$31,074, is recorded as a liability.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for the year 2001. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$49,923, \$16,543, \$13,737, respectively; 100 percent has been contributed for fiscal year 2001, 2000, and 1999.

8. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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 on a pay-as-you-go basis.

TOLEDO VILLAGE SHULE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

8. POSTEMPLOYMENT BENEFITS (Continued)

For STRS, all benefit recipients are required to pay a portion of health care costs 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, currently 14 percent of covered payroll. The Governing Board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$23,648 during the fiscal year.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$30,025 during the year.

9. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of June 4, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

TOLEDO VILLAGE SHULE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

10. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2001.

B. Ohio Community School Program

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (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 results of this review resulted in the state funding being adjusted. The school foundation payments were reduced by \$1,369, as a result of such review.

11. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2001, purchased service expenses were payments for services rendered by various vendors, as follows:

PURCHASED SERVICES

Accounting	\$13,593
Legal	14,060
Insurance	7,476
Employment Services	83,787
Phone	25,166
Security	877
Cleaning Services	1,400
Contracted Services - Admin/Instruct/Ed Training	2,590
Other Professional Services	72,089
Contracted Food Services	115,345
Building Lease Agreements	<u>259,268</u>
Total Purchased Services	<u><u>\$595,651</u></u>

TOLEDO VILLAGE SHULE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

12. OPERATING LEASES

The School has entered into a sub-lease for the period August 1, 1998 through June 30, 2003 with "Neighborhoods in Partnership" to lease 14,400 square feet of space for a school facility. Payments made totaled \$114,455 for the fiscal year. The building which houses the School is owned by IBC Corporation. The School has the option to renew the sub-lease at an inflation-adjusted rate for three additional five year term.

The School entered into an operating lease with Luttenberger & Company for additional school facility at a different site, known as the Macomber Site, for the period February 1, 2000 to June 30, 2003. Payments made totaled \$132,000 for the fiscal year. The School has the option to renew the lease for two additional five-year terms, with rent increases of 3% over the previous year's rent, rounded to the nearest ten dollars.

The School has entered into an operating lease commencing August 17, 1999 for a term of 48 months for a copier. Payments made totaled \$1,705 for the fiscal year. The copier is owned by General Electric Capital Corporation.

The School has entered into two separate leases commencing August 14, 1998 for a term of 24 months and 48 months for computers. Payments made totaled \$5,052 for the fiscal year. The computers are owned by Fleet Leasing Corporation.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2001.

Fiscal Year Ending June 30,	Facility Lease	Facility Lease	Copier Lease	Computer Lease
2002	\$128,204	\$135,960	\$1,705	\$4,740
2003	128,508	140,040	1,705	1,185
2004			60	
Total minimum lease payments	<u>\$256,712</u>	<u>\$276,000</u>	<u>\$3,470</u>	<u>\$5,925</u>

13. RELATED PARTIES

During the fiscal year, the School's Governing Board entered into a one -year employment contract with the Executive Director. The Executive Director is a member of the Governing Board, and the Executive Director's spouse is also a member of the Governing Board. Total payments to the Executive Director were \$72,300, which includes salary and reimbursements.

During the fiscal year, the Executive Director's daughter was paid \$33,702, which included salary and teaching services and contract payments for the direction of extracurricular activities and programs

14. SPONSOR CONTRACT

On April 11, 2002, Lucas County Educational Service Center, the Schools sponsor, provided notification of it's intent to not renew it's sponsorship agreement with the School. This notification indicated the School will be closed at the end of the 2002 school year.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

Toledo Village Shule
Lucas County
331 14th Street
Toledo, Ohio 43624

To the Governing Board:

We have audited the financial statements of the Toledo Village Shule, Lucas County, (the School) for the year ended June 30, 2001, and have issued our report thereon dated June 4, 2002. Our report expressed substantial doubt as to the ability of the School to continue as a going concern. 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 of America.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10148-001. We also noted a certain immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated June 4, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2001-10148-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated June 4, 2002.

This report is intended for the information and use of management, the Governing Board, and the 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, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

June 4, 2002

**TOLEDO VILLAGE SHULE
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

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

FINDING NUMBER 2001-10148-001

Federal Grant Accounting and Reporting Citation

Ohio Department of Education Federal Fiscal Report Procedures requires that a final expenditure report (FER) be filed. The FER is to be submitted for each project immediately after all financial obligations have been liquidated. The FER is due no later than 60 days after the end of the project period. Failure to submit the FER in a timely manner may result in a temporary suspension of the flow of federal funds for this grant until the project is closed. Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported.

The School did not file the FER until December 12, 2001 for all of the Title monies. The project period ended on September 30, 2001, and the filing date was November 30, 2001 for the FER. Also, the School reported liquidated Federal monies that were unable to be traced to the authorized project fund, function and special cost center in the School's accounting system. Support for the expenditures was verified only after significant reconstruction of the current records into the accounting system.

We recommend: 1) that project expenditures for Federal monies be posted to the authorized account codes; 2) the FER be filled out using the appropriately posted amounts from the School's accounting system; 3) the FER be filed with the Ohio Department of Education in accordance with the Federal Fiscal Report Procedure requirements; and 4) only expenditures with adequate detailed support be liquidated and posted to the accounting system.

FINDING NUMBER 2001-10148-002

Purchasing Policies & Procedures

The following was noted during the audit period:

- several expenditures were not authorized before the commitment of School funds;
- supporting documentation for payment of various expenditures was not maintained;
- certain invoices were not reviewed in detail and were overpaid, or paid twice;
- invoices for all expenditures were not matched to purchase orders or check stubs;
- several checks issued did not include all information as to the payee, accurate amount, addresses, line items encoded.
- posting of expenditures to ledgers were not coded to the proper line item for various expenditures; and contractual agreements entered into to pay off items over a period of time were not paid based on contractual provisions, several payments were made up to seven months late.

The Shule should have an adequate purchasing process and policy in place to support a favorable control environment to assist in preventing errors or misstatements from occurring and detecting errors which may have occurred.

Purchasing Policies & Procedures (Continued)

Controls for the processing of non-payroll disbursements should include, but are not limited to:

- Prior authorization of a purchase through the use of a purchase order which should be approved and documented through appropriate members of management (including Board members) and which should include appropriate coding for the expenditures;
- Accumulation of appropriate supporting documentation (original invoices) prior to authorization for payment;
- Detailed review of the invoice and supporting documentation indicating descriptions of the goods/services received and documentation on the invoice that the goods/services were received;
- Matching of invoice with purchase order and copy of check or check stub to ensure all supporting documentation has been reviewed;
- Review of the check used to pay for the purchase and supporting documentation to ensure that the payee, amount, address, etc. on the check and invoice agree;
- Board review of expenditures as posted to the expenditure ledger to ensure appropriate coding was utilized for payment, and;
- To pay the bills in accordance with contractual stipulations, by any applicable due dates, to avoid future late charges.

We recommend Shule develop and implement policies to ensure that appropriate documentation is maintained to support all expenditures. Also, we recommend Shule only pay expenditures which have an original invoice.

**TOLEDO VILLAGE SHULE
LUCAS COUNTY
FOR THE YEAR ENDED JUNE 30, 2001**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10148-001	ORC § 3319.39(A)(1), failure to obtain background checks on School employees	No	Partially Corrected; The school is in the process of obtaining the appropriate background checks.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

TOLEDO VILLAGE SHULE

LUCAS 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
JUNE 27, 2002**