



**THE JADES ACADEMY
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

The JADES Academy
Lucas County
2740 West Central Avenue
Toledo, Ohio 43606-3452

To the Governing Board:

We have audited the Balance Sheet of The JADES Academy, Lucas County, (the School) as of June 30, 1999, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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, 1999, and the results of operations, and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2000 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.

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

Jim Petro
Auditor of State

March 15, 2000

**BALANCE SHEET
ENTERPRISE FUND
AS OF JUNE 30, 1999**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 136,975
Receivables:	
Intergovernmental	<u>130,756</u>
Total Current Assets	<u><u>\$ 267,731</u></u>

LIABILITIES AND FUND EQUITY

Current Liabilities:

Contracts Payable	\$ 104,579
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Fund Equity:

Retained Earnings:	
Unreserved	<u>163,152</u>
Total Current Liabilities and Fund Equity	<u><u>\$ 267,731</u></u>

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

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

Operating Revenues:

Foundation Payments \$ 854,583

Operating Expenses:

Purchased Services-(See note 7) 851,657
Other Operating Expenses 47

Total Operating Expenses 851,704

Operating Income 2,879

Non-Operating Revenues:

Interest Earnings 7,273
Operating Grants 153,000

Total Non-Operating Revenues 160,273

Net Income 163,152

Retained Earnings at Beginning of Year 0

Retained Earnings at End of Year \$ 163,152

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

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 723,827
Cash Payments to Suppliers for Goods and Services	<u>(747,125)</u>
Net Cash Used by Operating Activities	<u>(23,298)</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received	<u>153,000</u>
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Cash Flows from Investing Activities:

Interest on Investments	<u>7,273</u>
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Net Increase in Cash and Cash Equivalents	136,975
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Cash and Cash Equivalents at the Beginning of the Year	<u>0</u>
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Cash and Cash Equivalents at the End of the Year	<u><u>\$ 136,975</u></u>
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(Continued)

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)

**RECONCILIATION OF OPERATING INCOME TO
NET CASH USED BY OPERATING ACTIVITIES**

Operating Income	<u>\$ 2,879</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase) in Intergovernmental Receivable	(130,756)
Decrease in Contracts Payable	<u>104,579</u>
Total Adjustments	<u>(26,177)</u>
Net Cash Used by Operating Activities	<u><u>\$ (23,298)</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The JADES Academy Community School (the School) is a non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under 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 seek to provide an innovative holistic school experience by addressing the educational, social, emotional, and economic needs of severely at-risk or adjudicated adolescent offenders for youth grades 5 through 12. 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 contract a with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 1, 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 sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of The JADES Academy. See Note 10.

The School operates under the direction of a five-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 has entered into a management contract with Boysville of Michigan (Boysville), a non-profit corporation, for management services and operation of its school. Boysville controls the School's one instructional/support facility. In exchange for its services, Boysville receives a management fee equal to all direct costs for operation of the School, including staff and supervisor compensation, rent supplies, equipment, and books. Boysville also receives a management fee for indirect costs. See Note 9.

NOTE 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 (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(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. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. 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 by the School are accounted for by the School's fiscal agent, the Lucas County Educational Service Center. To improve cash management, all funds received by the fiscal agent is maintained in bank accounts in the name of the School. Monies for all funds of the School are maintained in these accounts or temporarily used to purchase short-term investments.

During fiscal year 1999, investments were limited to repurchase agreements, which are valued at cost.

For the purposes of the statement of cash flows and for presentation on the combined balances, investments with original maturities of three month or less at the time they are purchased by the School are considered to be cash equivalents.

E. Fixed Assets and Depreciation

The School is operated under a management contract with Boysville. Therefore, no fixed assets are recognized by the School.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program. This program is recognized as operating revenue in the accounting period in which it is earned and becomes measurable.

The School also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$50,000 in planning monies. Additionally, the Sponsor, as part of the Lucas County pilot project, awarded the School \$100,000 to partially defray school start-up costs. Revenue from these programs are recognized as non-operating revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Grants are recognized as non-operating revenues in the accounting period in which they are earned and became measurable.

G. Accrued Liabilities

Obligations are reported as liabilities in accompanying financial statement.

NOTE 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 fiscal year end, the carrying amount of the School's deposits was (\$350,299) and the bank balance was \$30,393. The bank balance was covered by federal depository insurance. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

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 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 counter-party'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 counter-party, or by its trust department or agent but not in the School's name. The School's investments totaling \$487,274, which are maintained in a Ready Resource Savings Account (repurchase agreement) are included in Category 2.

NOTE 4 - RECEIVABLES

Receivables at June 30, 1999, consisted of intergovernmental (e.g., foundation) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

NOTE 5 - STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1999, the School received \$854,583 of school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of March 15, 2000, The Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court,

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

NOTE 6 - CONTINGENCIES

Grants

The School received financial assistance from a 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 applicable fund. 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, 1999.

NOTE 7 - PURCHASED SERVICE EXPENSES

For fiscal year 1999, purchased service expenses were for payment of the management contract with Boysville, payment for financial services from the Lucas County Educational Service Center, and payments to legal counsel, as follows:

Purchased Services

Boysville of Michigan, Inc. (See Note 9)	\$ 814,181
Lucas County Educational Service Center (See Note 10)	20,943
Legal Services	<u>16,533</u>
Total Purchased Services	<u><u>\$ 851,657</u></u>

NOTE 8 - RELATED PARTY

During fiscal year 1999, the School entered into a one-year, renewable lease for a facility owned by St. Anthony's Villa, which is operated by Boysville, see Note 9. Two Board members of the School are also employees of Boysville. The School contracts with Boysville for operation of its school, including program evaluation; human resources; staffing, supervision and performance review; fiscal services and accounting; and audits and rule compliance. As stated above, in Note 7, the School paid Boysville \$814,181.

NOTE 9 - MANAGEMENT CONSULTING CONTRACT

The School entered into a one-year contract, on January 19, 1999, effective July 1, 1998 through June 30, 1999, with Boysville of Michigan, Inc. for operational services. Under the contract, Boysville is required to provide the following services:

1. Full and complete operation and administration of every aspect of the School.
2. Carrying out the policies of the Board of Trustees of JADES Academy and implementing the contract.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

3. Performance and full compliance with every term and condition of the contract.
4. Fiscal services and accounting in connection with the School, including written budgetary reports of the School.
5. Evaluations under appropriate legal and professional guidelines, including written reports regarding program evaluation.
6. All human resource functions.
7. Full responsibility for staffing the school, supervising the staff, and reviewing the performance of the staff.
8. Ensuring that appropriate audits are performed and that the School is operated in full compliance with applicable laws, rules, regulations, and professional standards.
9. Pay all direct costs of the school, including staff and supervisor compensation, rent supplies, equipment, books, etc., to be compensated by The JADES Academy, pursuant to the contract and all applicable laws, rules, and regulations.
10. Pay all indirect costs for the School incurred on behalf of the School, to be compensated by The JADES Academy, for a fee of 6% of all funds received by The JADES Academy for school purposes.
11. Lease approximately 10,000 square feet of space to The Jades Academy, during school hours, the premises on which the School is operated at a rate of \$4.00 per square foot per year, with rent to be paid in monthly installments.

NOTE 10 - FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of The JADES Academy. As part of this agreement, the School shall compensate the Lucas County Educational Service Center four percent (4%) of the per pupil allotments paid to the School from the State of Ohio.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of the School:

1. Maintain custody of all funds received by the school in segregated accounts separate from the Sponsor's or any other Community School's funds;
2. Maintain all books and accounts of all funds of the school;
3. Maintain all financial records of all state funds of the school and follow Auditor of State procedures for receiving and expending state funds;
4. Assist the school in meeting all financial reporting requirements established by the Auditor of the State of Ohio;

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

5. Invest funds of the school in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other Community School; and,
6. Pay obligations incurred by the school within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the school so long as the proposed expenditure is within the approved budget and funds are available.



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

The JADES Academy
Lucas County
2740 West Central Avenue
Toledo, Ohio 43606-3452

To the Governing Board:

We have audited the financial statements of The JADES Academy, Lucas County (the School) as of and for the year ended June 30, 1999, and have issued our report thereon dated March 15, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 March 15, 2000.

This report is intended for the information and use of the management, Governing Board, and 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", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

March 15, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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THE JADES ACADEMY

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
APRIL 11, 2000**