



**JADES ACADEMY
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

JADES ACADEMY
LUCAS COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Governing Board:

We have audited the Balance Sheet of JADES Academy, Lucas County, (the Academy) as of June 30, 2000, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the fiscal year ended June 30, 2000. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Academy as of June 30, 2000, and the results of operations and its cash flows for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2000 on our consideration of the Academy'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.

Jim Petro
Auditor of State

December 21, 2000

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JADES ACADEMY
LUCAS COUNTY

BALANCE SHEET
AS OF JUNE 30, 2000

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$44,495
Receivables	
Intergovernmental Receivable	123,042
Prepaid Items	<u>1,209</u>
Total Assets	<u><u>\$168,746</u></u>

Liabilities and Fund Equity

Current Liabilities

Contracts Payable	<u>34,343</u>
Total Liabilities	<u>34,343</u>

Fund Equity

Retained Earnings	
Unreserved	<u>134,403</u>
Total Liabilities and Fund Equity	<u><u>\$168,746</u></u>

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

JADES ACADEMY
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Operating Revenues

Foundation Payments	\$565,736
Other Operating Revenues	<u>500</u>
Total Operating Revenues	<u>566,236</u>

Operating Expenses

Purchased Services	628,170
Materials and Supplies	<u>250</u>
Total Operating Expenses	<u>628,420</u>
Operating Loss	<u>(62,184)</u>

Non-Operating Revenues

Interest Earnings	4,767
Operating Grants - Federal	25,139
Operating Grants - State	<u>3,529</u>
Total Non-Operating Revenues	<u>33,435</u>
Net Loss	(28,749)
Retained Earnings at Beginning of Year	<u>163,152</u>
Retained Earnings at End of Year	<u><u>\$134,403</u></u>

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

JADES ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$586,882
Cash Payments to Suppliers for Goods and Services	(702,691)
Other Operating Revenue	<u>500</u>
Net Cash Used by Operating Activities	<u>(115,309)</u>

Cash Flows from Noncapital Financing Activities

Operating Grants Received - Federal	14,533
Operating Grants Received - State	<u>3,529</u>
Net Cash Provided by Noncapital Financing Activities	<u>18,062</u>

Cash Flows from Investing Activities

Interest on Investments	<u>4,767</u>
Net Cash Provided by Investing Activities	<u>4,767</u>
Net Decrease in Cash and Cash Equivalents	(92,480)
Cash and Cash Equivalents at the Beginning of the Year	<u>136,975</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$44,495</u></u>

(Continued)

JADES ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)

**Reconciliation of Operating Income to
Net Cash Provided by Operating Activities**

Operating Loss (\$62,184)

**Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities**

Changes in Assets and Liabilities

Decrease in Intergovernmental Receivable	18,320
Increase in Prepaid Items	(1,209)
Decrease in Contracts Payable	<u>(70,236)</u>

Total Adjustments (53,125)

Net Cash Used by Operating Activities (\$115,309)

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

**JADES ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

JADES Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Academy 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 Academy's tax-exempt status. The Academy'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 Academy, 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 Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract 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 Academy 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 Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy, (see note 11).

The Academy 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 Academy's one instructional/support facility. In exchange for its services, Boysville receives a management fee equal to all direct costs for operation of the Academy, including staff and supervisor compensation, rent supplies, equipment, and books. Boysville also receives a management fee for indirect costs. See Note 10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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.

**JADES ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(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. 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 Academy's contract with its Sponsor. The contract between the Academy 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 Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

During fiscal year 2000, 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 balance sheet, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

E. Fixed Assets and Depreciation

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

**JADES ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2000, 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.

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, 2000, the carrying amount of the Academy's deposits was \$32,455 and the bank balance was \$33,080. The bank balance was covered by federal depository insurance.

The Academy's investments are categorized to give an indication of the level of risk assumed by The Academy at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Academy or its agent in the Academy'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 Academy'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 Academy's name. The Academy's investments totaling \$12,040 (fair value), which are maintained in a Ready Resource Savings Account (repurchase agreement) are included in Category 2.

4. RECEIVABLES

Receivables at June 30, 2000, consisted of intergovernmental (e.g., foundation, federal grants and DPIA) 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.

5. RISK MANAGEMENT - Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2000, the Academy contracted with Cincinnati Insurance, Co. for property and general liability insurance.

Professional liability is protected by Cincinnati Insurance, Co. with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate and no deductible.

**JADES ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

6. 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 Academy. During the fiscal period ended June 30, 2000, the Academy received \$565,736 of school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly 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 appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997 decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the Academy 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.

7. CONTINGENCIES

Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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 Academy at June 30, 2000.

**JADES ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

8. PURCHASED SERVICE EXPENSES

For the fiscal year June 30, 2000, purchased service expenses were for payment of the management contract with Boysville and payment for financial services from the Lucas County Educational Service Center, as follows:

PURCHASED SERVICES

Boysville of Michigan, Inc. (See Note 10)	\$613,607
Lucas County Educational Service Center (See Note 11)	<u>14,563</u>
Total Purchased Services	<u><u>\$628,170</u></u>

9. RELATED PARTY

During fiscal year 2000, The Academy entered into a one-year renewable lease for a facility owned by St. Anthony's Villa, which is operated by Boysville (see Note 10). Two Board members of the Academy are also employees of Boysville. The Academy contracts with Boysville for operation of its school, including program evaluation; human resources; staffing, supervision and performance review; fiscal services and accounting; and audit and rule compliance. As stated above, in Note 8, the Academy paid Boysville \$613,607 which includes \$34,343 that was due to Boysville for reimbursement and presented as Contracts Payable as of June 30, 2000.

10. MANAGEMENT CONSULTING CONTRACT

The Academy entered into a one-year contract, on July 20, 1999, effective July 1, 1999 through June 30, 2000, with Boysville of Michigan, Inc. for operational services. Under the contract, Boysville is required to provide the following services:

- A. Full and complete operation and administration of every aspect of the Academy.
- B. Carrying out the policies of the Board of Trustees of the Academy and implementing the contract.
- C. Performance and full compliance with every term and condition of the contract.
- D. Fiscal services and accounting in connection with the Academy, including written budgetary reports of the Academy.
- E. Evaluations under appropriate legal and professional guidelines including written reports regarding program evaluation.
- F. All human resource functions.
- G. Full responsibility for staffing the Academy, supervising the staff, and reviewing the performance of the staff.
- H. Ensuring that appropriate audits are performed and that the Academy is operated in full compliance with applicable laws, rules, regulations, and professional standards.

**JADES ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

10. MANAGEMENT CONSULTING CONTRACT (continued)

- I. Pay all direct costs of the Academy, including staff and supervisor compensation, rent supplies, equipment, books, etc., pursuant to the contract and all applicable laws, rules and regulations.
- J. Pay all indirect costs of the Academy incurred on behalf of the Academy, to be compensated by the Academy, for a fee of \$38,136.
- K. Lease approximately 10,000 square feet of space to the Academy, during school hours, the premises on which the Academy is operated at a rate of \$4.67 per square foot per year, with rent to be paid in monthly installments.

11. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the Academy 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 Academy:

- 1. Maintain custody of all funds received by the Academy 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 Academy;
- 3. Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;
- 4. Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- 5. Invest funds of the Academy 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 Academy 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 Academy so long as the proposed expenditure is within the approved budget and funds are available.



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

JADES Academy
Lucas County
2740 West Central Avenue
Toledo, Ohio 43606-3498

To the Governing Board:

We have audited the financial statements of JADES Academy, Lucas County, (the Academy) for the fiscal year ended June 30, 2000, and have issued our report thereon dated December 21, 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 Academy'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 Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 a matter involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated December 21, 2000.

JADES Academy
Lucas County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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.

Jim Petro
Auditor of State

December 21, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
JANUARY 23, 2001**