



**Auditor of State  
Betty Montgomery**



**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Springfield Academy of Excellence  
Clark County  
623 South Center Street  
Springfield, OH 45502

We have audited the accompanying general-purpose financial statements of the Springfield Academy of Excellence, Clark County, (the Academy), as of and for the year ended June 30, 2002, as listed in the table of contents. 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 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.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As shown in the financial statements, for the year ended June 30, 2002, the Academy had an operating loss in the amount of \$484,180, a working capital deficiency of \$173,023, and an accumulated deficit \$148,275. Accordingly, there is substantial doubt about the Academy's ability to continue as a going concern. Management's plans in regards to this matter are described in Note 20. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Springfield Academy of Excellence, Clark County, as of June 30, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2003 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.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

April 4, 2003

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**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2002**

**Assets**

Current Assets:	
Cash and Cash Equivalents with Fiscal Agent	\$16,744
Accounts Receivable	135
Intergovernmental Receivables	73,260
Prepaid Items	60
Inventory Held for Resale	502
Total Current Assets	<u>90,701</u>
Non-Current Assets:	
Security Deposits	6,454
Fixed Assets (Net of Accumulated Depreciation)	28,772
Total Non-Current Assets	<u>35,226</u>
Total Assets	<u><u>125,927</u></u>

**Liabilities and Fund Equity**

Current Liabilities:	
Deferred Revenue	52,061
Accounts Payable	81,625
Accrued Wages Payable	46,343
Compensated Absences Payable	8,257
Intergovernmental Payable	27,772
Leases Payable	33,196
Notes Payable - Current Portion	14,470
Total Current Liabilities	<u>263,724</u>
Long-Term Liabilities:	
Notes Payable - Long-Term	<u>10,478</u>
Total Liabilities	<u>274,202</u>
Accumulated Deficit	<u>(148,275)</u>
Total Fund Equity	<u>(148,275)</u>
Total Liabilities and Fund Equity	<u><u>\$125,927</u></u>

*The accompanying notes are an integral part of the financial statements.*

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>Operating Revenues</b>	
Foundation Payments	\$538,527
Disadvantaged Public Impact Aid	183,526
Donated leases	178,307
Food Services	5,038
Classroom Materials and Fees	2,707
Miscellaneous Operating Revenue	6,990
	<hr/>
Total Operating Revenues	915,095
	<hr/>
<b>Operating Expenses</b>	
Salaries	552,238
Fringe Benefits	122,399
Purchased Services	413,629
Materials and Supplies	120,146
Lease payments	178,307
Depreciation	6,641
Interest Expense	973
Other Operating Expenses	4,942
	<hr/>
Total Operating Expenses	1,399,275
	<hr/>
Operating (Loss)	(484,180)
	<hr/>
<b>Non-Operating Revenues</b>	
State and Federal Grants	324,987
Interest Income	45
Contributions and Donations	10,873
	<hr/>
Total Non-Operating Revenues	335,905
	<hr/>
Net (Loss)	(148,275)
	<hr/>
Retained Earnings at Beginning of Year	0
	<hr/>
(Accumulated Deficit) at End of Year	(\$148,275)
	<hr/> <hr/>

*The accompanying notes are an integral part of the financial statements.*

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**STATEMENT OF CASHFLOWS  
FOR THE YEAR ENDED JUNE 30, 2002**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash received from State of Ohio	\$ 732,314
Cash received from Food Services	5,023
Cash received from Classroom Materials and Fees	2,707
Cash received from Other Sources	6,990
Cash Payments to Suppliers for Goods and Services	(447,787)
Cash Payments to Employees for Services	(489,396)
Cash Payments for Employee Benefits	(92,621)
Cash Payments for Other Operating Uses	(5,002)
Net Cash (Used for) Operating Activities	<u>(287,772)</u>

**Cash Flows from Noncapital Financing Activities**

State and Federal Grants Received	296,861
Contributions and Donations	10,873
Net Cash Provided by Noncapital Financing Activities	<u>307,734</u>

**Cash Flows from Capital and Related Financing Activities**

Payments for Capital Acquisitions	<u>(3,263)</u>
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**Cash Flows from Investing Activities**

Cash Received from Interest on Investments	<u>45</u>
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Net Increase in Cash and Cash Equivalents	16,744
Cash and Cash Equivalents at Beginning of Year	<u>0</u>
Cash and Cash Equivalents at End of Year	<u><u>16,744</u></u>

**Reconciliation of Operating Income (Loss) to Net**

Cash Provided by (Used for) Operating Activities	
Operating (Loss)	(484,180)

**Adjustments to Reconcile Operating Income (Loss) to Net**

Cash Provided by (Used for) Operating Activities	
Depreciation	6,641
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(135)
(Increase) in Inventory	(502)
(Increase) in Prepaid Items	(60)
(Increase) in Intergovernmental Receivables	(73,260)
Increase in Accounts Payable	81,625
Increase in Accrued Wages Payable	46,343
Increase in Compensated Absences Payable	8,257
Increase in Intergovernmental Payable	27,772
Increase in Leases Payable	33,196
Increase in Notes Payable	14,470
Increase in Deferred Revenue	52,061
Total Adjustments	<u>196,408</u>
Net Cash Provided by Operating Activities	<u><u>(\$287,772)</u></u>

*The accompanying notes are an integral part of the financial statements.*

Noncash Activities: Lease obligations of \$178,307 were forgiven during the period and not evidenced by cash transactions.

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**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**1. DESCRIPTION OF THE ENTITY**

Springfield Academy of Excellence (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's objective is to provide education in a nurturing environment that focuses on the development of the whole child. Emphasis is placed on academic achievement as well as physical, psychological, social and ethical development. 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 school.

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a 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 Academy was approved for operation under a contract with the Ohio Department of Education (the Sponsor) for a period of five academic years commencing after May 29, 2001. 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 academy has retained under contract the financial services of the Lucas County Educational Service Center with the Treasurer of Lucas County Educational Service Center serving as the Chief Fiscal Officer of the Academy (see Note 14).

The Academy 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 Academy's one instructional/support facility staffed by 11 non-certified and 14 certificated full-time teaching personnel who provide services to 158 students.

**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 a governmental nonprofit organization. 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 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**

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent 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.

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE TEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus/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 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. Equity In Pooled Cash And Investments**

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 accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with an original maturity 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**

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded their fair market value on the date received. The Academy maintains a capitalization policy of five hundred dollars. The Academy does not possess any infrastructure.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years, except for those items being acquired through a capital lease. Capital lease fixed assets are depreciated over the life of the lease. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Intergovernmental Revenues (Nonexchange Transactions)**

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

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$50,000 of State funds to offset start-up costs of the Academy. The start-up funds were utilized for Student & Administrative Services, and Site Improvement and Maintenance. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under federal grants and entitlements for the 2002 school year totaled \$245,010.

**G. Prepaid Items**

Prepayments and deferrals represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment.

**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.

**I. Compensated Absences**

Paid time off benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means. The Academy records a liability for fifty percent of accumulated unused sick leave and personal days earned by all employees.

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE TEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Security Deposit**

The Academy entered into several leases for the use of the building for the administration of the Academy, for computer start-up costs and computer equipment, and for use of a certain phone company for which security deposits were required to be paid at the signing of the agreement. These amounts are held by the respective lessor/vendor.

**K. Accrued Liabilities**

Obligations incurred but unbilled prior to June 30, 2002, are reported as accrued liabilities in the accompanying financial statements.

**3. ACCOUNTABILITY**

For fiscal year 2002, the Academy did not have a fiscal funding or cancellation clause included in their lease agreements and issued a promissory note without a maturity date.

**4. CASH AND CASH EQUIVALENTS**

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, 2002, the carrying amount of the Academy's deposits was \$16,744 and the bank balance was \$28,151. The bank balance was covered by federal depository insurance.

**5. RECEIVABLES**

Receivables at June 30, 2002, consisted of intergovernmental grants. All receivables are considered collectible in full.

A summary of intergovernmental receivables follows:

Title I	\$61,733
Title VI	187
Title VI-B	7,684
Title II	1,465
School Net	1,675
Title XX	<u>516</u>
Total	<u>\$73,260</u>

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**6. FIXED ASSETS**

The following is a summary of fixed assets at June 30, 2002:

	Balance
	<u>6/30/02</u>
Furniture & Equipment	\$35,413
Less Accumulated Depreciation	<u>( 6,641)</u>
Total Net Fixed Assets	<u>\$28,772</u>

**7. RISK MANAGEMENT**

**A. 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 fiscal year 2002, the Academy contracted with Cincinnati Insurance Co. for property, general liability, auto, and excess liability insurance. Property coverage is covered for \$237,000 and contents are insured for \$343,700. There is a deductible of \$250 and property and contents are 90% co-insured.

Commercial General Liability covers each single occurrence for \$1,000,000 with a \$2,000,000 general aggregate limit. Automobile liability has a combined single limit of \$1,000,000. The excess liability is covered for \$1,000,000 for each occurrence and \$1,000,000 in the aggregate.

**B. Worker's Compensation:**

The Academy pays the State Worker's Compensation System a premium for employee injury by the State.

**C. Employees Medical Benefits:**

The Academy has contracted through an independent agent to provide employee medical insurance to its full time employees who work 25 or more hours per week.

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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 or by calling (614) 222-5853.

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used 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 Academy's required contribution for pension obligations to SERS for the year ended June 30, 2002 were \$6,816; 96.25 percent was contributed for fiscal year 2002. The unpaid contribution for fiscal year 2002, in the amount of \$256 is recorded as a liability.

**B. State Teachers Retirement System**

The Academy 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a public available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614)-227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Academy is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. 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 Academy's required contributions for pension obligations to STRS for the year ended June 30, 2002 were \$32,666; 89.64 percent has been contributed for fiscal year 2002. The unpaid contribution for fiscal year 2002, in the amount of \$3,384 is recorded as a liability.

**9. POSTEMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$15,473 for the fiscal year ended June 30, 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

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 period, employer contributions to fund health care benefits were 8.54 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 2002, the minimum pay had been established at \$12,400. For The Academy, the amount to fund health care benefits, including surcharge, was \$19,153 for the fiscal year ended June 30, 2002.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits as \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

**10. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining paid time off is derived from policies and procedures approved by the Governing Board. Numerous employees had paid time off earned for personal days and sick leave in fiscal year 2002 that had not been used at year end. Fifty percent of unused personal days and sick leave is shown as a current liability.

**B. Employee Medical Benefits**

The Academy has contracted through an independent agent to provide employee medical, insurance to its full time employees who work 25 or more hours per week. The Academy pays a portion of the monthly premiums for all selected coverage.

**11. SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**12. CONTINGENCIES**

**A. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the school. 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, 2002.

**B. Pending Litigation**

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 Law. The effect of this suit, if any, on the school is not presently determinable.

**13. RELATED PARTY TRANSACTIONS**

During the fiscal year ending June 30, 2002, the Academy entered into several lease agreements with the Precious Gifts Day Care Center (the Day Care Center) and the Church of Jesus Family Worship Center (the Church), which are affiliated with the Director and a Trustee of the Academy of Excellence. The Director is the operator of the Day Care Center and the Trustee is the Pastor of the Church. Expenses recognized to the Day Care Center were \$28,300 and to the Church were \$68,516 for the fiscal year ending June 30, 2002. Throughout the fiscal year ending June 30, 2002, the Church forgave a total of \$178,307 in the lease agreements, which is reflected on the accompanying financial statements, and \$48,196 is recorded as a payable at year end.

Additionally, the Director and a Trustee of the Academy lent money to the Academy totaling \$71,189 during the fiscal year of 2002, for the payment of freight and installation of equipment, lease payments, and other costs. Of this amount \$17,000 is included in notes payable (Note 17) and \$54,189 is included as accounts payable since it was not evidenced by a formal agreement.

**14. FISCAL AGENT**

The Academy's contract with the Lucas County Education Service Center (ESC) states the Treasurer of the ESC shall serve as the Chief Fiscal 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 total contract payment was \$9,914, \$4,953 was paid during the year, and the remainder, \$4,308, is recorded in accounts payable. The Treasurer of the ESC shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- A. Maintain custody of all funds received by the Academy in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- B. Maintain all books and accounts of the Academy;

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**14. FISCAL AGENT (Continued)**

- C. Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;
- D. Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. Invest funds of the Academy in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- F. 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.

**15. PURCHASED SERVICES**

For the period July 1, 2001 through June 30, 2002, purchased service expenses were payments for services rendered, as follows:

Professional and Technical Services	\$ 47,234
Property Services	336,784
Travel/Meeting Expense	5,911
Communications	12,191
Utilities	10,360
Transportation Services	<u>1,149</u>
Total Purchased Services	<u>\$413,629</u>

**16. OPERATING LEASES**

The Academy entered into various operating leases during the fiscal year ending June 30, 2002, including leases for land, office and classroom space from the Church of Jesus Family Worship Center (the Church). Total lease obligation for fiscal year 2002 was \$206,607. The Academy paid \$28,300 on the obligation and the Church forgave \$178,307. There was an additional operating lease for modular classrooms and parking spaces from the Precious Gifts Day Care Center totaling \$60,000.

Future lease obligations include:

A lease of land from the Church, dated June 21, 2001, for a term of five years terminating on July 1, 2006. The lease expense for the year ended June 30, 2002 was \$144,000 which was forgiven by the Church. Annual future lease payments are \$144,000 for the next four years, totaling \$720,000.

A lease of the Annex from the Church, dated June 21, 2001, beginning October 1, 2001 for a term through July 1, 2006. The lease expense for the year was \$22,104, which was forgiven by the Church. Annual future payments are \$29,472 for the next four years, totaling \$117,888.

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE TEAR ENDED JUNE 30, 2002  
(Continued)**

**16. OPERATING LEASES (Continued)**

A lease of 12 double modular systems and 50 parking spaces, from the Precious Gifts Day Care Center for which a \$60,000 in expenditures were recognized during the period. Of this amount, \$13,000 was recorded as lease expense and \$47,000 of this amount is recorded as a payable at year-end.

**17. NOTES PAYABLE**

The Academy issued several Promissory Notes to officials employed by the Academy during the fiscal year ending June 30, 2002. A note in the amount of \$8,242 was issued to the Title I Coordinator on May 2, 2002 for partial payment of her salary. Payment is to be made upon the Academy's receipt of the Title I funding.

The Academy issued a promissory note August 15, 2001 to the Director's husband, Cecil Pratt, in the amount of \$17,000 (Note 13) with interest at the rate of 7% APR as repayment for his financial assistance in the payment of expenses for the installation of modular units. The Academy agreed to make monthly payments of \$600 until the loan is paid in full. The Academy made two monthly payments totaling \$1,200 during fiscal year 2002. As of June 30, 2002 the balance due to Mr. Pratt was \$16,706.

**18. REVIEWS CONDUCTED BY THE OHIO DEPARTMENT OF EDUCATION**

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 review resulted in the overpayment to the school in the amount of \$7,975. This amount will be repaid through reductions of future state foundation payments of \$1,595 per month from February through June 2003.

**19. SUBSEQUENT EVENTS**

Mrs. Roseann Pratt, the Director, loaned the Academy a total of \$54,189 during the fiscal year ending June 30, 2002, without a formal repayment agreement. On July 11, 2002, Mrs. Pratt donated \$20,000 of the \$54,189 loan to the Academy, leaving a remaining balance of \$34,189 due with interest at the rate of 1.5% APR for which the Academy issued a promissory note.

**20. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT**

At June 30, 2002, the Academy's accumulated deficit was \$148,275. The Academy expects to receive grant proceeds in the ensuing fiscal year and the Governing Board is continuing to solicit contributions to eliminate the deficit. The Academy's long range plans are to increase facilities/space. Enrollment has been held to a replacement level due to inadequate space to accommodate increased enrollment. An aggressive marketing plan is not realistic until the school can assure adequate space to accommodate increased enrollment.



**Auditor of State  
Betty Montgomery**

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

Springfield Academy of Excellence  
Clark County  
623 South Center Street  
Springfield, OH 45502

To the Governing Board:

We have audited the financial statements of Springfield Academy of Excellence, Clark County (the Academy, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 4, 2003, wherein we noted the Academy had suffered losses from operations and has a net accumulated deficit that raises substantial about its ability 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.

**Compliance**

As part of obtaining reasonable assurance about whether 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-10312-001 and 2002-10312-002. We also noted an immaterial instance of noncompliance that we have reported to the management of the Academy in a separate letter dated April 4, 2003.

**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. However, we noted a 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 Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 2002-10312-003 through 2002-10312-005.

**Internal Control Over Financial Reporting  
(Continued)**

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, the reportable condition described above as item 2001-10357-005 is also considered 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 the management of the Academy in a separate letter dated April 4, 2003.

This report is intended for the information and use of the audit committee, management, Board of Trustees, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

April 4, 2003

**SPRINGFIELD ACADEMY OF EXCELLENCE  
CLARK COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2002-10312-001**

Community Schools may issue debt, however if the debt obligates or is secured by the State, monies received by the community school under Ohio Rev. Code § 3314.08(D) must then be issued in accordance with **Ohio Rev. Code § 3314.08(J)**, which states, in part, that “the school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money was borrowed.”

During the fiscal year ended June 30, 2002, the Academy issued a \$17,000 promissory note for construction of the modular classroom units, with no specified maturity date. The note in question is general in nature. Because the note did not specifically exclude the Academy’s Ohio Rev. Code § 3314.08(D) funds from the general collateral provisions, this note obligates these monies, and the Academy is therefore in violation of Ohio Rev. Code § 3314.08(J). Additionally, the Academy’s Director loaned \$54,189 to the Academy which was not evidenced by a written agreement.

The Springfield Academy of Excellence officials should take steps to monitor all debt and determine there is no outstanding debt contrary to the restrictions noted above.

**Client Response:** Promissory notes will include a maturity date not to exceed June 30 of the lending year.

**FINDING NUMBER 2002-10312-002**

**Auditor of State Bulletin 2000-05** states that lease agreements which extend beyond the current fiscal year should contain a fiscal funding or cancellation clause. Such a clause permits the community school to terminate the agreement on an annual basis if funds are not available to make required payments. The Academy’s leases for the modular units, multi-purpose room, annex, phone and freezer extend beyond the June 30, 2002, but did not contain the required fiscal funding or cancellation clause. The lack of this clause may result in the Academy being obligated for a lease without a means of payment and /or a means of cancellation. Additionally, the Academy did not provide a copy of the signed lease agreement for the modular units.

The Academy should amend the leases to comply with the requirement above and implement policies to prevent entering into any other lease agreements that do not include the required clause, and also maintain complete files for all lease agreements.

**Client Response:** Leases will be amended to include the required fiscal funding and cancellation clause. A copy of the signed lease agreement for the modular units had been faxed to the Auditor’s office during the audit process. Duplicate files of all leases will continue to be maintained in the Director’s office and the Business Manager’s office.

**FINDING NUMBER 2002-10312-003**

Current leave balances for salaried employees were not maintained or reviewed on a regular basis. The Principal maintained records which included the dates when teachers had requested leave for the purpose of getting substitute teachers only, however the type of leave taken was not always designated and no other records were maintained until year-end. At the end of the year, the Business Manager and the Fiscal Agent formulated separate cumulative leave reports from the Principal's records. There were discrepancies between all three reports. Below are examples of the most significant variances among the three different leave reports for the fiscal year ending June 30, 2002:

<u>Employee</u>	<u>Report 1</u> <u>Hours</u>	<u>Report 2</u> <u>Hours</u>	<u>Report 3</u> <u>Hours</u>
Sick Leave:			
1	83.25	89.75	89.75
2	67.00	67.00	99.50
3	6.50	6.50	0.00
Personal Leave			
4	6.50	3.50	3.50
5	13.00	65.00	65.00
6	6.50	6.50	0.00
7	13.00	13.00	0.00

Additionally, Section 5.08 of the Employee Handbook states that:

“SAE may grant an employee unpaid personal leave at the Employer’s discretion, once an employee has used all accrued vacation and paid personal leave.”

The handbook also states that when any employee surpasses their sick and/or personal leave balances, they may request unpaid personal leave. Several employees had deficit cumulative leave balance, but requests for unpaid leave were not found.

The Academy should maintain detailed leave records, including the date and type of leave taken, along with the current leave balance for each employee. Additionally, leave request forms should be prepared by the employee, approved by supervisory personnel, and maintained to support usage records. Further, leave records should be reviewed on a regular basis to provide that employees maintain positive leave balances and to avoid misstating the liability for compensated absence on the financial statements.

The Academy should review all leave usage for the year, correct all leave balances, and for those employees who used leave in excess of the maximum, reduce current leave balances or deduct these negative balances from future accruals.

**Client Response:** The Academy recognized a deficiency in its leave policy and procedures. In 2002, policies and procedures were revised to allow for the accurate tracking and timely pay-out by June 30 for unused personal and sick leave. Leave balances are checked on a monthly basis and reviewed prior to approving leave requests. An employee who uses leave in excess of the maximum, will see a reduction in the current leave balance or a deduction of the negative balance from future accruals.

**FINDING NUMBER 2002-10312-004**

The Academy's fixed assets included the amount paid pursuant to the lease with the Precious Gifts Daycare for the rental of the classroom modules which the Daycare leased from Modular Design Technologies, resulting in an overstatement to the Academy's fixed assets of \$33,000. GASB Statement 13 provides specific guidance concerning detailed criteria for capital leases. The lease between the Academy and the Daycare is an operating lease only and cannot be capitalized by the Academy.

The Academy's fixed assets also included "leasehold improvements" which consisted of \$127,190 for installation of the classroom modules, \$32,000 for setup fees, \$5,689 for installation of a waterline and a walkway to the modules, and \$3,858 for the architect's services for improvements to the multi-purpose room of the Church of Jesus, further resulting in an additional overstatement of the Academy's fixed assets of \$168,738.

The total overstatement resulted in the adjustment to the Academy's financial statements for fixed assets of \$201,738 and related depreciation of \$13,449.

The Academy should develop and implement a fixed asset policy to properly capitalize purchased assets or items acquired as part of capital leases and properly report activity associated with operating leases. Additionally, procedures should be developed and implemented for detailed review of all financial statements to provide for compliance with applicable guidance and to improve the reliability of the financial statements.

**Client Response:** The fixed asset policy had been developed and implemented. It has been revised and will be re-submitted to the Academy's CPA to test the robustness of the policy and associated procedures.

**FINDING NUMBER 2002-10312-005**

The Academy ended the year with an accumulated deficit of \$148,275 as the result of operations exceeding revenues. Continued deficit spending could affect the Academy's ability to provide future services to its students and to meet all of its other obligations.

The Academy should develop policies and implement procedures to estimate revenues during the year and monitor that expenditures are within those estimated amounts. Additional revenue sources may be necessary for continued operations and should be pursued as available and within legal guidelines. These activities should be monitored by the Board and be part of its routine functions.

**Client Response:** Accumulated deficit was a timing issue due to the delay in receiving entitlement funding. Monthly variance reports were implemented in FY03 to allow the school to estimate revenues and monitor expenditures. A five year budget forecast had been developed and is reviewed and updated annually to incorporate the historical data and most current data accumulated to date. Additional revenue sources are being investigated and will be pursued within legal guidelines. These activities will be monitored by the Board and will be part of the Board's routine functions.





**Auditor of State  
Betty Montgomery**

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**SPRINGFIELD ACADEMY OF EXCELLENCE**

**CLARK 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  
MAY 15, 2003**