



**Auditor of State
Betty Montgomery**

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Academy of Business and Technology
c/o CSAS, Inc.
20755 Greenfield Road
Suite 300
Southfield, MI 48075

To the Board of Directors:

We have audited the accompanying basic financial statements of the Academy of Business and Technology, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2004, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 Academy has not obtained an exemption from Federal income taxes. Therefore, its net earnings are subject to such income tax. The accompanying financial statements do not include a provision for income taxes or accrued income taxes, which we believe should be included to conform with accounting principles generally accepted in the United States of America.

Because of the departure referred to in the preceding paragraph, net income and retained earnings are overstated and liabilities for accrued income taxes is understated by amounts which, while material, we are unable to determine.

In our opinion, except for the effects of not recording tax expense or accrued taxes payable as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy of Business and Technology, as of June 30, 2004, and the changes in its financial position and its 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 December 15, 2005, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

December 15, 2005

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

This section of the Academy of Business and Technology's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2004. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This report consists of a series of financial statements and notes to the financial statements. These statements are organized so the reader can understand the Academy of Business and Technology financially as a whole.

*Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)*

*Basic Financial Statements
Statement of Net Assets
Statement of Revenues, Expenses and Changes in Net Assets
Statement of Cash Flows*

Notes to the Financial Statements

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Activities report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services and food services. Unrestricted state aid and state and federal grants finance most of these activities.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Table 1 provides a summary of the Academy's net assets for fiscal year 2004 and fiscal year 2003:

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	\$ 653,700	\$ 1,055,928
Capital Assets, Net	300,526	82,614
<i>Total Assets</i>	<u>954,226</u>	<u>1,138,542</u>
Liabilities		
Current Liabilities	946,592	877,293
Non-Current Liabilities	2,212	-
<i>Total Liabilities</i>	<u>948,804</u>	<u>877,293</u>
Net Assets		
Invested in Capital Assets	300,526	-
Unrestricted	(295,104)	261,249
<i>Total Net Assets</i>	<u>\$ 5,422</u>	<u>\$ 261,249</u>

Net Assets – The Academy's net assets decreased significantly over the previous year - the decrease in net assets was approximately \$255,800.

The Academy's decline in financial position is the result of several factors. The primary reason for decline is due to the fact that grant revenue was recorded in the prior year for expenditures incurred in the current year. In addition, general revenues are used to support the food program. The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy is discussed below. The Academy's net assets were \$5,422 at June 30, 2004. Capital assets recorded at historical cost, net of depreciation, totaled \$300,526. No long-term debt was used to finance the acquisition of those assets. The remaining amount of net assets of (\$295,104) was unrestricted.

The approximately (\$295,104) in unrestricted net assets represents the accumulated results of the past years' operations. Since the unrestricted net assets balance is in a deficit, the Academy has difficulty meeting its working capital and cash flow requirements. The liabilities of the Academy are financed through a balance owed to the management company. The operating results of the Academy will have a significant impact on the change in unrestricted net assets from year to year.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

The results of this year's operations for the Academy as a whole are reported in the Statement of Activities (Table 2), which shows the change in net assets (deficit) for fiscal year 2004 and fiscal year 2003.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Foundation Payments	\$ 2,064,670	\$ 1,996,258
Disadvantaged Pupil Impact Aid	313,208	256,330
Food Sales	3,189	24,045
Other	519	36,693
Non-Operating Revenues:		
Federal Grants	380,807	1,073,553
State Grants	22,489	9,326
<i>Total Revenues</i>	<u>2,784,882</u>	<u>3,396,205</u>
Operating Expenses		
Salaries	933,531	982,719
Fringe Benefits	278,892	292,908
Purchased Services	1,548,594	1,789,737
Materials and Supplies	95,593	110,912
Depreciation	184,099	53,610
<i>Total Expenses</i>	<u>3,040,709</u>	<u>3,229,886</u>
<i>Increase (Decrease) in Net Assets</i>	<u>\$ (255,827)</u>	<u>\$ 166,319</u>

As reported in the Statement of Activities, the cost of all of our activities this year was approximately \$3,040,700. Certain activities were partially funded by those who benefited from the programs, or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefits" portion of our business-type activities with \$2,377,878 in state foundation and DPIA allowance.

The Academy experienced a decrease in net assets of \$255,827. Key reasons for the change in net assets were the timing of grant revenue and expenditure recognition and additional food program expenditures.

Capital Assets

As of June 30, 2004, the Academy had \$670,061, before depreciation, invested in capital assets, including leasehold improvements, furniture and equipment. This amount represents a net increase, including additions and disposals, of \$402,011 for leasehold improvements, furniture and equipment. No debt was issued for these additions. No major capital projects are planned for the 2004-05 fiscal year.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Table 3 shows capital assets, net of depreciation, for fiscal year 2004 and fiscal year 2003:

(Table 3)
Capital Assets at June 30, 2004
(Net of Depreciation)

	2004	2003
Leasehold Improvements	\$ 262,645	\$ 41,742
Furniture and Equipment	37,881	40,872
Totals	<u>\$ 300,526</u>	<u>\$ 82,614</u>

For more information on capital assets see Note 5 to the basic financial statements.

Debt

At the end of fiscal year 2004, the Academy did not have any outstanding debt other than normal trade payables, which are recorded on an accrual basis.

Other obligations include accrued salaries, benefits, and vacation pay. More detailed information about long-term liabilities is presented in the notes to the financial statements.

Economic Factors

The state foundation revenue is determined based on the student count and the foundation allowance per pupil. Approximately 85 percent of the revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid, the actual revenue received depends on the State's ability to collect revenues. The impact on the Academy of the State's projected revenue is not known.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Andrew Burks, Fiscal Officer of the Academy of Business & Technology, at Charter School Administration Services, 20755 Greenfield Road Suite 300, Southfield, Michigan 48075 or 1-800-425-1415.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets

Current Assets:

Cash	\$ 212,861
Accounts Receivable	6,295
Intergovernmental Receivables	429,594
Prepaid Items	4,950
<i>Total Current Assets</i>	<u>653,700</u>

Non-Current Assets:

Capital Assets, Net of Accumulated Depreciation	<u>300,526</u>
<i>Total Non-Current Assets</i>	<u>300,526</u>

<i>Total Assets</i>	<u>954,226</u>
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Liabilities

Current Liabilities:

Accounts Payable	821,563
Accrued Wages and Benefits	103,566
Intergovernmental Payable	21,463
<i>Total Current Liabilities</i>	<u>946,592</u>

Non-Current Liabilities

Due Within One Year	1,089
Due In More Than One Year	1,123
<i>Total Non-Current Liabilities</i>	<u>2,212</u>

<i>Total Liabilities</i>	<u>948,804</u>
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Net Assets

Invested in Capital Assets	300,526
Unrestricted (Deficit)	<u>(295,104)</u>

<i>Total Net Assets</i>	<u>\$ 5,422</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Enterprise
Operating Revenues	
Foundation Payments	\$ 2,064,670
Disadvantaged Pupil Impact Aid	313,208
Food Sales	3,189
Other Revenues	519
<i>Total Operating Revenues</i>	2,381,586
Operating Expenses	
Salaries	933,531
Fringe Benefits	278,892
Purchased Services	1,548,594
Materials and Supplies	95,593
Depreciation	184,099
<i>Total Operating Expenses</i>	3,040,709
<i>Operating Loss</i>	(659,123)
Non-Operating Revenues	
Grants Received - Federal	380,807
Grants Received - State	22,489
<i>Total Non-Operating Revenues</i>	403,296
<i>Change in Net Assets</i>	(255,827)
<i>Net Assets Beginning of Year</i>	261,249
<i>Net Assets End of Year</i>	\$ 5,422

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Increase in Cash and Cash Equivalents:

<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation Payments	\$ 2,042,686
Cash Received from Disadvantaged Pupil Impact Aid	261,456
Cash Received from Food Program	3,189
Cash Received from Others	519
Cash Payments to Suppliers for Goods and Services	(1,590,657)
Cash Payments to Employees for Services	(888,259)
Cash Payments for Employee Benefits	<u>(310,948)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(482,014)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Grants Received - Federal	982,283
Grants Received - State	<u>15,861</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>998,144</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	<u>(402,011)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(402,011)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	114,119
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>98,742</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 212,861</u></u>

(Continued)

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Operating Loss	\$ (659,123)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	184,099
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	21,398
Increase in Prepaid Items	(4,700)
Increase in Intergovernmental Receivable	(73,736)
Increase in Accounts Payable	19,304
Increase in Accrued Wages and Benefits	30,744
	<hr/>
<i>Total Adjustments</i>	177,109
	<hr/>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (482,014)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Academy of Business and Technology (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through eighth. The Academy's objective is to prepare all students to be successful citizens, cooperative workers and profitable entrepreneurs by developing their unique potential. 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 sue and be sued, 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 Ohio Council of Community Schools (the Sponsor) for a period of five years commencing August 15, 1999, which was later extended through June 30, 2006. 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. In consideration of permitting the creation of the Academy, for the time, organization, oversight, fees and costs of the Sponsor, the Academy makes annual payments of 3% of the total state funds received each year to the Sponsor.

The Academy operates under the direction of a five-member Board of Directors. The Board of Directors 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 Board of Directors controls the Academy's two instructional/support facilities staffed by 14 non-certified and 22 certificated full time teaching personnel who provide services to 392 students.

The Governing Board has entered into a management contract with Charter School Administration Services, Inc. (CSAS), to provide consulting services, including teacher training, curriculum development, financial management, and State relations (See Note 18).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy of Business and Technology 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, to its proprietary activities, 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

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. 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 statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. 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 contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast that is to be updated on an annual basis.

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's management company, the Charter School Administration Services, Inc. (CSAS), which serves as the Academy's fiscal agent. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name. Monies for the Academy are maintained in this account.

For purposes of the statement of cash flows and for the presentation on the statement of net assets, investments with original maturities of three months or less, at the time they are purchased by the Academy, are considered to be cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

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

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

G. - (Continued)

All reported capital assets depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Leasehold Improvements	5 years
Furniture & Equipment (except computers)	5 years
Computer Equipment	3 years

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if 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 accumulated unused vacation time when earned for all employees who are eligible for vacation.

I. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2004, including: accounts payable and salary payments made after year-end that were for services rendered in fiscal year 2004. Certain teaching personnel are paid year round, however payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2004, for all salary payments made to teaching personnel during the summer of 2004.

J. Net Assets

Net assets represent the difference between assets and liabilities. Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the state. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

L. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

L. - (Continued)

The Academy also participates in various state and federal operating grants. Grants awarded in 2004 included the following: Title I, Title II-A, Title II-D, Title IV, Title V, IDEA-B, School Net, Ohio Reads, EMIS, and meal reimbursement program. Revenue received under the above named programs is recognized as non-operating revenue in the accompanying financial statements.

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For 2004, the Academy has implemented GASB Statement No. 34, "*Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*"; GASB No. 37 "*Basic Financial Statements for State and Local Governments: Omnibus*"; GASB No. 38, "*Certain financial Statement Note Disclosures*"; and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*". At June 30, 2004, there was no effect on the financial statements as a result of implementing GASB 34, 37, 38, and Interpretation No. 6.

GASB 34 creates new basic financial statements for reporting on the Academy's financial activities. The financial statements are now prepared on an accrual basis of accounting. The beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

NOTE 4 - DEPOSITS

At fiscal year end, the carrying amount of the Academy's deposits was \$212,861, and the bank balance was \$253,939. Of the bank balance, \$100,000 was covered by federal depository insurance and \$153,939 was not insured or collateralized.

Investments: The Academy had no investments at June 30, 2004, or during the fiscal year.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 5 – (Continued)

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Title I	\$ 159,906
Title II-A	97,660
Title II-D	8,637
Title IV	4,166
Title V	4,759
Title VI-B IDEA-B	34,875
School Lunch & Breakfast Program	12,889
Reading Intervention	6,588
Repair & Renovation Grant	26,378
School Foundation	73,736
Total Intergovernmental Receivables	\$429,594

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Capital Assets Being Depreciated				
Leasehold Improvements	175,280	383,939	-	559,219
Furniture and Equipment	92,770	18,072	-	110,842
Total Capital Assets	268,050	402,011	-	670,061
Less Accumulated Depreciation:				
Leasehold Improvements	(133,538)	(163,036)		(296,574)
Furniture and Equipment	(51,898)	(21,063)	-	(72,961)
Total Accumulated Depreciation	(185,436)	(184,099)	-	(369,535)
Total Capital Assets Being Depreciated, Net	\$ 82,614	\$ 217,912	\$ -	\$ 300,526

NOTE 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. During fiscal year 2004, the Academy contracted with Employers Mutual Casualty Company for general liability and property insurance with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate limit and no deductible. Professional liability is protected by excess insurance coverage with an \$8,000,000 single occurrence limit and an \$8,000,000 aggregate and no deductible. Automobile liability for bodily injury and/or property damage has a \$1,000,000 single occurrence limit. The Academy also has an \$8,000,000 liability umbrella policy from the Employers Mutual Casualty Company.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

A. - (Continued)

Settled claims have not exceeded this commercial coverage in any of the past two years. There has been no significant change in insurance coverage from last year.

B. Workers' Compensation

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$13,031, \$10,113, and \$6,585, respectively; 100 percent has been contributed for fiscal years 2004, 2003, and 2002.

B. State Teachers Retirement System of Ohio

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

B. – (Continued)

DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$102,727, \$97,205, and \$67,989, respectively; 100 percent has been contributed for fiscal years 2004, 2003, and 2002.

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$7,899 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 eligible benefit recipients.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$7,038.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Governing Board. Non-certified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to non-certified employees upon termination of employment. Teachers and administrators who are not on a twelve month contract do not earn vacation time.

Teachers, administrators, and non-certified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation up to a maximum of thirty days for those employees with at least five full years of service and up to a maximum of forty days for those employees with ten or more years of service.

B. Insurance Benefits

The Academy has contracted with private carriers to provide employee medical, dental, vision, prescription, and life insurance to its full time employees who work 40 or more hours per week.

NOTE 11 – LONG-TERM OBLIGATIONS

The changes in the Academy's long-term obligations during the fiscal year 2004 were as follows:

<u>Long-Term Obligations</u>	<u>Principal Outstanding 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/04</u>	<u>Amounts Due in One Year</u>
Compensated Absences	\$ -	\$ 2,212	\$ -	\$ 2,212	\$ 1,089

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 – STATE 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 decision 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 Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 13 - 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 Academy. 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, 2004.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 2004, the review was completed in January 2005. As a result of said review, the Academy's state foundation funding will be increased by \$17,273 for fiscal year 2004, and is recorded as an intergovernmental receivable on the basic financial statements.

C. 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 laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Academy is not presently determinable. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. No oral argument has been set to date. The effect of this suit, if any on the Academy is not presently determinable.

NOTE 14 – OPERATING LEASES

The Academy entered into a sublease commencing August 1, 1999 for 5 years with "Academy of America", a Michigan non-profit corporation, which leases from "Covenant Development Corporation", to lease space to house the Academy's Woodland campus. The building was sold by Covenant

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 14 – (Continued)

Development Corporation to CSAS Real Estate on November 1, 2002. The Academy entered into a new lease agreement with CSAS Real Estate, effective the same date, for 1 year and 9 months, through July 31, 2004. Effective May 17, 2004, this lease was extended to June 30, 2006.

The Academy entered into a lease for a second facility, the Parkwood campus, with CSAS Real Estate, Inc., commencing August 1, 2001 for four years. The lease was extended through June 30, 2006. Facility lease payments to CSAS Real Estate, Inc. for the two facilities totaled \$589,800 for the fiscal year.

The Academy entered into several leases for copiers: one commencing July 30, 2001 for 36 months; one commencing December 13, 2001 for 36 months; one commencing February 26, 2002 for 36 months; one commencing March 1, 2003 for 36 months; one commencing July 1, 2003 for 36 months; one commencing February 27, 2004 for 36 months; and one commencing April 18, 2004 for 36 months. The copiers are owned by Savin Credit Corporation, GE Capital, and Ricoh Business Systems. Payments made totaled \$21,389 for the fiscal year.

NOTE 14 – OPERATING LEASES – (Continued)

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2004:

<u>Year Ending June 30,</u>	<u>Facility Lease</u>	<u>Copiers</u>
2005	\$ 589,800	\$ 20,255
2006	589,800	14,120
2007		7,075
Total Minimum Lease Payments	<u>\$ 1,179,600</u>	<u>\$ 41,450</u>

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 15 – PURCHASED SERVICE EXPENSES

For the year ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Rent to CSAS Real Estate, Inc.	\$ 417,161
Overhead Fees to CSAS Inc.	311,148
Management Fees to CSAS Inc.	211,000
Consulting Fees	128,438
Food Service	127,240
Utilities	69,212
Administrative Fees to Sponsor	63,939
Maintenance and Repairs	61,573
Professional Fees	47,396
Telephone	37,506
Leased Equipment	32,674
Insurance	17,848
Advertising	10,467
Meeting Expenses	8,298
Miscellaneous	4,694
Total	<u>\$ 1,548,594</u>

NOTE 16 – TAX EXEMPT STATUS

The Academy has not filed for its tax-exempt status under § 501(c)(3) of the Internal Revenue Code, and the Academy has made no provision for any potential future tax liability.

NOTE 17 – RELATED PARTY TRANSACTIONS

Two of the board members of the Academy of Business and Technology are also board members of the Academy of Dayton and Academy of Cleveland Community Schools.

Charter School Administration Services, Inc., the Academy's management company, also owns CSAS Real Estate, Inc., which leases the Parkwood and Woodland facilities to the Academy. Total lease payments for the year ended June 30, 2004, to CSAS Real Estate, Inc., were \$417,161 for rent. Total payments to Charter School Administration Services, Inc. for overhead fees were \$311,148 and for management fees were \$211,000.

NOTE 18 – MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective August 1, 1999 through July 31, 2004, with CSAS for educational management services. The agreement was extended by the number of years in the Sponsor Contract with the Council, which would be effective through June 30, 2006. In exchange for its services, CSAS receives a management fee equal to 12 percent of all revenue sources and is reimbursed for all cost incurred on behalf of the Academy. Total payments to CSAS were \$211,000 for the fiscal year ended June 30, 2004. In addition, the Academy pays CSAS an annual incentive fee in an amount equal to fifty (50%) percent of the excess of revenue over expenditures, which was not collected by CSAS for the year ended June 30, 2004. Under the renewal management agreement, the annual incentive fee was eliminated. Terms of the contract require CSAS to provide the following:

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 18 – (Continued)

- A. All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Academy;
- B. Implementation and administration of the Educational Program, including the selection and acquisition of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs;
- C. All personnel functions, including professional development for the Academy Administrator, all instructional personnel, and support staff;
- D. Control, maintenance, and operation of the Academy building, and the installation of technology integral to the Academy design;
- E. All aspects of the business administration of the Academy;
- F. Transportation and food service for the Academy;
- G. A projected annual budget prior to each school year;
- H. Detailed statements of all revenues received, from whatever source, and detailed statements of all direct expenditures for services rendered to or on behalf of the Academy, whether incurred on-site or off-site, upon request;
- I. Annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy;
- J. Reports on Academy operations, finances, and students' performance, upon request, but not less frequently than four (4) times per year; and
- K. Any other function necessary or expedient for the administration of the Academy.

NOTE 19 – CONSORTIUM AGREEMENT

On January 14, 2000, the Governing Board approved joining a consortium with twenty other charter schools and public school academies, each of which is managed by Charter School Administration Services, Inc. (CSAS) under management agreements comparable to the management agreement between the Academy and CSAS.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 19 – (Continued)

The members of the consortium including the Academy are:

<u>Academy</u>	<u>State of Operation</u>
Academy of Arizona	Arizona
Academy of Business and Technology	Ohio
Academy of Cleveland	Ohio
Academy of Dallas	Texas
Academy of Dayton	Ohio
Academy of Detroit West	Michigan
Academy of Flint	Michigan
Academy of Houston	Texas
Academy of Inkster	Michigan
Academy of Kansas City	Missouri
Academy of Lathrup Village	Michigan
Academy of Lithonia	Georgia
Academy of Michigan	Michigan
Academy of Oak Park	Michigan
Academy of Southfield	Michigan
Academy of Waterford	Michigan
Academy of Westland	Michigan
Beaumont Charter Academy	Texas
Bexar County Academy	Texas
Cherry Hill School of Performing Arts	Michigan

The Management Agreement between the Academy and CSAS provides for the allocation of indirect costs incurred by CSAS on behalf of the Academy and the other members of the consortium. Based upon the count of students at the Academy and the other members of the consortium as of September 1999, and the experiences of CSAS in both incurring costs for consortium members and allocation of such costs to consortium members, the Academy and CSAS have agreed upon an equitable method of such allocation. Based upon the above count, the Academy shall pay CSAS, for all indirect reimbursable expenses incurred by CSAS on behalf of the Academy and other members of the consortium, for the 2003-2004 school year, in an amount equal to \$67 per month per student enrolled at the Academy, totaling \$311,148 for the fiscal year ending June 30, 2004.

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**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR JUNE 30, 2004**

FEDERAL GRANTOR/ Pass Through Grantor	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<i>Nutrition Cluster:</i>				
School Breakfast Program	05PU-2004	10.553	\$ 13,631	\$ 13,631
	05PU-2003		2,283	2,283
National School Lunch Program	LLP4-2004	10.555	66,203	66,203
	LLP4-2003		5,457	5,457
Total U.S. Department of Agriculture - Nutrition Cluster			87,574	87,574
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1S1-2004	84.010	180,722	218,359
	C1S1-2003		80,643	
Total Title I Grants to Local Educational Agencies			261,365	218,359
Special Education Grants to States	6BSF-2004	84.027	7,678	325
	6BSF-2003		(2,235)	
Total Special Education			5,443	325
Safe and Drug - Free Schools and Communities State Grants	DRS1-2004	84.186	3,350	
	DRS1-2003		(39)	
Total Safe and Drug-Free Schools and Communities State Grants			3,311	-
Charter Schools	CHS1-2003	84.282	149,282	11,157
State Grants for Innovative Programs	C2S1-2004	84.298	427	650
	C2S1-2003		1,273	
Total State Grants for Innovative Programs			1,700	650
Education Technology State Grants	TJS1-2004	84.318	1,130	452
	TJS1-2003		1,693	
Total Education Technology State Grants			2,823	452
Improving Teacher Quality State Grants	TRS1-2004	84.367	11,062	10,640
	TRS1-2003		(2,996)	
Total Improving Teacher Quality State Grants			8,066	10,640
<i>Passed Through Ohio Department of Education and Then Through Ohio School Facilities Commission:</i>				
Federal Emergency Repair Program		84.352A	462,719	383,939
Total U.S. Department of Education			894,709	625,522
Total Federal Awards Receipts and Expenditures			\$ 982,283	\$ 713,096

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

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**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the Academy's Federal Award Programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

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**Auditor of State
Betty Montgomery**

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

Academy of Business and Technology
c/o CSAS, Inc.
20755 Greenfield Road
Suite 300
Southfield, MI 48075

To the Board of Directors:

We have audited the basic financial statements of the Academy of Business and Technology (the Academy) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 15, 2005, in which we noted that our opinion was qualified because the Academy did not report a provision for income taxes payable or income tax expenses. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-001 through 2004-003.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable condition 2004-001 listed above to be a material weakness. In a separate letter to the Academy's management dated December 15, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2004-004 and 2004-005. In a separate letter to the Academy's management dated December 15, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, Board of Directors, Sponsor, and federal awarding agencies. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 15, 2005



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Academy of Business and Technology
c/o CSAS, Inc.
20755 Greenfield Road
Suite 300
Southfield, MI 48075

To the Board of Directors:

Compliance

We have audited the compliance of the Academy of Business and Technology (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

As described in items 2004-006 and 2004-007, in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding Eligibility that apply to its Title I Grants to Local Educational Agencies program and did not comply with requirements regarding the Davis-Bacon Wage Act, Procurement and Suspension and Debarment, and Special Tests and Provisions applying to its Federal Emergency Repair Program grant. Compliance with those requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Academy of Business and Technology complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated December 15, 2005.

We intend this report solely for the information and use of the audit committee, management, Board of Directors, Sponsor, and federal awarding agencies. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 15, 2005

ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS		
(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies- CFDA #84.010 Federal Emergency Repair Program-CFDA #84.352A
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

Finding Number	2004-001
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Material Weakness

The Academy has not applied for tax exempt status with the Internal Revenue Service (IRS). Consequently, without approval of tax exempt status, the Academy's net income is subject to taxation by the IRS. Further, the Academy has not filed any tax returns. The accompanying financial statements do not include amounts associated with an income tax liability or associated fines or penalties.

We recommend the Academy establish provisions for federal and local and accrued taxes. We also recommend the Academy immediately file the appropriate tax forms with the IRS, pay any outstanding taxes due and negotiate a settlement concerning any fees and/or penalties which may be assessed.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

Finding Number	2004-002
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Reportable Condition

Monitoring controls comprise regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring controls should identify unexpected results or expectations (including significant compliance exceptions), investigate underlying causes, and take corrective action.

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be in a more overview nature. Monitoring controls should assist management in making informed decisions on operational and fiscal matters for the Academy, which can include:

- Review of key performance indicators;
- Monthly review and approval of the Academy's expenditures; and
- Monitoring that grant monies are used in accordance with grant requirements.

We recommend the minutes be maintained in a manner documenting (1) review and approval of the Academy's expenditures, (2) approval of employee pay rates/salary scales, and (3) review and approval of grant program applications and participation.

Finding Number	2004-003
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Reportable Condition

The Academy has implemented various control procedures over payroll cash disbursements. These procedures include, but are not limited to, the Principal or Director signing each employee's timesheet prior to sending out for processing and each employee being paid according to the salary schedule approved by the management company CFO. In addition, the Board of Directors has authorized all the hiring and terminations of staff to be handled by the Principal and Director.

The Academy's Principal or Director did not sign 6 of 60 (10%) of the tested timesheets. The Academy did not maintain employee applications for 100% of the tested employees. Also, 11 of the 23 (48%) employees tested were not paid according to the CFO-approved salary schedule.

We recommend the Academy ensure due care be utilized to abide by control procedures established by the management company and the Board of Directors.

Finding Number	2004-004
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Noncompliance

Ohio Revised Code §3314.03 (A) (10) states all community school classroom teachers are to be licensed in accordance with Ohio Revised Code Sections 3319.22 to 3319.31, except that a community school may engage noncertificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Department of Education to these "noncertificated" persons in order to teach.

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LUCAS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

Six of the 19 (33%) employees tested were not teaching within the Ohio Department of Education certification guidelines for the grades approved by the certificate. We recommend the Board of Directors establish procedures to ensure all teachers are properly licensed and teaching within their licensed guidelines.

Finding Number	2004-005
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Noncompliance

Ohio Revised Code §3319.39 (A) (1) provides, in pertinent part, that "...the appointing or hiring officer...of a chartered nonpublic school shall request the superintendent of the bureau of criminal identification and investigation to conduct a criminal records check with respect to any applicant who has applied to the school district, educational service center, or school for employment in any position as a person responsible for the care, custody, or control of a child."

The Academy did not obtain criminal records checks for 16 of 23 (67%) employees tested.

We recommend the Academy adopt and implement policies and procedures requiring all employees, teaching and non-teaching, who come in contact with students, to have background checks performed, in accordance with the above stated requirement. These policies and procedures should also include obtaining background checks of current employees.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Title I Eligibility – Non-Compliance and Questioned Costs

Finding Number	2004-006
CFDA Title and Number	Title I Grants to Local Educational Agencies (CFDA # 84.010)
Federal Award Number / Year	C1S1-2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Title I, Section 1115(b) of Elementary and Secondary Education Act (ESEA) (i.e. 20 USC 6315) defines eligible children under the Title I Targeted Assistance program as "...children identified by the school as failing, or at most risk of failing, to meet the State's challenging student academic achievement standards on the basis of multiple, educationally related, objective criteria established by the local educational agency ... except that children from preschool through grade 2 shall be selected solely on the basis of such criteria as teacher judgment, interviews with parents, and developmentally appropriate measures."

The Academy has identified their specific, objective criteria as those children with scores below a 39 on their Stafford cumulative test score, teacher recommendation, or at risk of failing based upon prior quarter's grade card. Based upon the above-stated criteria, 14 of 45 (31.1%) students served by the Title I program did not meet ESEA eligibility requirements.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

Based on the non-compliance identified above, we are questioning \$67,910 in Title I grant expenditures.

We recommend the Academy (1) implement procedures to ensure that Title I services are provided only to students deemed eligible in accordance with ESEA eligibility requirements; and (2) remit these grant monies to the Ohio Department of Education.

2. Federal Emergency Repair Program – Non-Compliance and Questioned Costs

Finding Number	2004-007
CFDA Title and Number	Federal Emergency Repair Program (CFDA # 84.352A)
Federal Award Number / Year	2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education and then through Ohio School Facilities Commission

Ohio School Facilities Commission (OSFC) Federal Emergency Repair Program (FERP) Guidelines, Section VII, states, in part, that “LEAs that apply for emergency repair grants must provide parents, educators, and interested community members with an opportunity to consult and comment on the use of funds. *** Failure on the part of an LEA to fulfill the public comment requirement will automatically disqualify the LEA from participating in the program.” The Academy was unable to provide evidence this requirement had been filed.

OSFC FERP Grant Agreement, Section 3.11, states, in part, “The LEA shall commence to contract for the design and construction of the emergency repairs immediately upon receipt of this Agreement ***” The Academy did not enter into a contract for design or construction of approved repairs. The general contractor, McCloud, entered into an agreement with Richard Walls, of Academy of America. Neither Mr. Walls nor the Academy of America are affiliated with the Academy of Business and Technology or the management company; nor was an agreement entered into with the Academy of Business and Technology for Mr. Walls to perform this service.

The OSFC FERP Grant Agreement, Section 4.1, states, in part, “The LEA shall contract with a qualified professional design firm to: provide assistance in developing bid packages ***prepare plans, specifications and estimates of cost for bidding the project ***For any project with an estimated professional design fee of more than \$25,000, unless the LEA determines in writing the project is an emergency requiring immediate action and the Commission approves the request, the LEA shall comply with the selection procedures set forth in Section 153.65 to 153.71 of the Ohio Revised Code ***” The Academy did not contract with a professional design firm to provide assistance in the bidding procedures and project estimates.

Finally, the OSFC FERP Guidelines, Section IX, states, in part, “Any laborers and mechanics employed by contractors or subcontractors on repair and renovation projects assisted with these federal grants must be paid in accordance with prevailing wage requirements in the Davis-Bacon Act.” The Academy did not include a prevailing wage clause within each of its contracts for the projects performed, and there was no evidence of the Academy’s compliance with the Davis-Bacon requirements.

**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

Based on the non-compliance matters identified above, we are questioning \$383,939 in federal grant expenditures.

We recommend the Academy (1) implement procedures to ensure that unique and specific grant requirements are adhered to; (2) remit these grant monies to OSFC; and (3) designate individuals associated with the Academy and/or the management company to oversee grant operations.

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**ACADEMY OF BUSINESS AND TECHNOLOGY
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Ohio Revised Code § 3314.03(A)(10) – Teacher Certifications	No	Not corrected. Reissued as finding 2004-004.
2003-002	Academy has not applied for tax exempt status (material weakness)	No	Not corrected. Reissued as finding 2004-001.
2003-003	Expenditure Approval	No	Partially corrected. Reissued as management letter recommendation.
2003-004	Monitoring Controls	No	Partially corrected. Reissued as finding 2004-002 for uncorrected items.
2003-005	34CFR80.23(b) & 34CFR80.50(D)(2) – Available period & return of funds	Yes	Finding no longer valid; grant award revised.



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ACADEMY OF BUSINESS AND TECHNOLOGY

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 12, 2006**