



Mary Taylor, CPA
Auditor of State

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Auglaize Educational Academy
Auglaize County
1045 Dearbaugh Street
Wapakoneta, Ohio 45895

To the Board of Directors:

We have audited the accompanying financial statements of the Auglaize Educational Academy (AEA), Auglaize County, Ohio, as of and for the year ended June 30, 2006, which comprise the AEA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the AEA'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 our audit provides a reasonable basis for our opinion.

Ohio Administrative Code § 117-2-03 (B) requires the AEA to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of the Auglaize Educational Academy, Auglaize County, Ohio, as of June 30, 2006, and the changes in cash financial position, thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2007, on our consideration of the AEA'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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 21, 2007

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of Auglaize County Educational Academy's (AEA) financial performance provides an overall review of AEA's financial activities for the fiscal year ended June 30, 2006, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of AEA's financial performance.

Highlights

AEA, a community school, began its first year of operation in fiscal year 2005 and had sixty-one students participating in the program in fiscal year 2006. Fiscal year 2006 was the first full year of operations for AEA.

Receipts received for Foundation was for a full year. The AEA is entitled to two years of start-up funding. During fiscal year 2006, AEA received \$150,000 from the fiscal year 2005 start-up receipts and none pertaining to fiscal year 2006. Services provided to AEA from the Auglaize County Educational Service Center were paid through March 31, 2006.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to AEA's cash basis of accounting.

AEA has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing receipts, disbursements, and the related assets and liabilities. Under AEA's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related receipts (such as accounts receivable) and certain liabilities and their related disbursements (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Table 1 provides a summary of AEA's net assets for fiscal year 2006 and fiscal year 2005:

	2006	2005
Assets:		
Current Assets	<u>\$189,261</u>	<u>\$207,626</u>
Net Assets:		
Unrestricted	<u>\$189,261</u>	<u>\$207,626</u>

Net assets did not change significantly. As of June 30, 2006, AEA had paid for purchased services from the Auglaize County Educational Service Center through March 31, 2006; however, the AEA still owed for purchased services from April 1, 2006, to the end of the fiscal year.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2006 and fiscal year 2005.

**Table 2
Change in Net Assets**

	2006	2005
Operating Receipts		
Foundation	\$330,501	\$208,061
Non-Operating Receipts		
Interest	10,931	2,038
Non operating Grants	164,928	78,000
Total Non-Operating Receipts	175,859	80,038
Total Receipts	506,360	288,099
Operating Disbursements		
Purchased Services	332,691	80,682
Materials and Supplies	141,494	0
Other	520	64
Capital Outlay	50,020	0
Total Disbursements	524,725	80,746
Increase (Decrease) in Net Assets	(18,365)	207,353
Net Assets at Beginning of year	207,626	273
Net Assets at End of Year	\$189,261	\$207,626

Foundation receipts increased 59 percent from receiving a full year's allocation. Non-operating grants increased 111 percent. In fiscal year 2005, AEA received \$75,000 of the total \$225,000 start-up funding. During fiscal year 2006, AEA received the remaining \$150,000.

In fiscal year 2005, AEA had only made one payment for purchased services to the Auglaize County Educational Service Center. During fiscal year 2006, the costs for services provided to AEA in the prior fiscal year, as well as those services for fiscal year 2006 through March 31, 2006, were paid to the Auglaize County Educational Service Center.

Budgeting

AEA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Current Issues

The enrollment at AEA is increasing. Funding was adequate during the first full year of operations. Funding of operations is being reviewed to determine if there is enough support from the participating school districts to continue into the future once all start-up funding has been disbursed.

Contacting AEA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of AEA's finances and to reflect AEA's accountability for the monies it receives. Questions concerning any of the information provided in this report or requests for additional information should be directed to Margaret J. Grimm, Treasurer, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF NET ASSETS
CASH BASIS
JUNE 30, 2006**

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$189,261</u></u>
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Net Assets:

Unrestricted	<u><u>\$189,261</u></u>
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See accompanying notes to the basic financial statements.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS
CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Operating Receipts:	
Foundation	\$330,501
Operating Disbursements:	
Purchased Services	332,691
Materials and Supplies	141,494
Other	520
Capital Outlay	50,020
Total Operating Disbursements	<u>524,725</u>
Operating Loss	(194,224)
Non-Operating Receipts (Disbursements):	
Interest Revenue	10,931
Non-operating Grants	164,928
Total Non-Operating Receipts (Disbursements)	<u>175,859</u>
Change in Net Assets	(18,365)
Net Assets at Beginning of Year	<u>207,626</u>
Net Assets at End of Year	<u><u>\$189,261</u></u>

See accompanying notes to the basic financial statements.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL

Auglaize County Educational Academy (AEA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. AEA's objective is to provide education opportunities through a virtual curriculum for students in kindergarten through twelfth grade. AEA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. AEA may acquire facilities as needed and contract for any services necessary for the operation of the school.

AEA was approved for operation under a contract with the Auglaize County Educational Service Center for a five-year period commencing on the first day of the academic year 2003. AEA became operational in November 2004. Auglaize County Educational Service Center is responsible for evaluating the performance of AEA and has the authority to deny renewal of the contract at its expiration. Auglaize County Educational Service Center is also the fiscal agent of AEA with the Treasurer of Auglaize County Educational Service Center performing the role of Treasurer for AEA.

AEA operates under the direction of a seven-member Board of Directors made up of the Superintendents from the participating school districts. Auglaize County Educational Service Center does not make up a majority of the Board and cannot impose its will on AEA; therefore, AEA is not a component unit of the Auglaize County Educational Service Center. The Board of Directors is responsible to help create, approve, and monitor AEA's annual budget, develop policies to guide the operation of AEA, and maintain a commitment to the vision, mission, and belief statements of AEA and the children it serves. During fiscal year 2006, AEA purchased services from the Auglaize County Educational Service Center to provide instructional, professional development, administrative, and curriculum development services for AEA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of AEA's accounting policies.

A. Basis of Presentation

AEA's basic financial statements consist of a statement of net assets and statement of receipts, disbursements, and change in net assets.

AEA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

AEA's financial statements are prepared using the cash basis of accounting. Receipts are recorded in AEA's financial records and reported on the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, except Ohio Rev. Code Section 5705.391(A) which requires the school to prepare a 5 year projection. The contract between AEA and its Sponsor does prescribe an annual budget requirement.

D. Cash and Cash Equivalents

Cash held by AEA is reflected as "Equity in Pooled Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2006, AEA had no investments.

E. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by AEA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

AEA first applies restricted resources when a disbursement is made for purposes for which both restricted and unrestricted net assets are available. AEA did not have any restricted net assets at fiscal year end.

F. Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly from the primary activity of AEA. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of AEA. All receipts and disbursements not meeting this definition are reported as non-operating.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2006, the carrying amount of the AEA's bank balance was \$189,261. Based on the criteria described in GASB Statement No 40, "*Deposit and Investment Risk Disclosure*," as of June 30, 2006, \$90,843 of the AEA's bank balance was exposed to custodial risk.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits in excess of FDIC coverage are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at members banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specified collateral held at the Federal Reserve Bank in the name of the AEA.

The AEA had no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with AEA or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits secure.

Investments – The AEA had no investments.

4. RISK MANAGEMENT

AEA 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 2006, AEA had the following insurance coverage provided through the Auglaize County Educational Service Center:

Coverage provided by Schools of Ohio Risk Sharing Authority is as follows:

General Liability	\$3,000,000
Automobile Liability	1,000,000
Aggregate	5,000,000
Building and Personal Property	1,890,976

5. FISCAL AGENT

The agreement with the Auglaize County Educational Service Center states the Treasurer of the Auglaize County Educational Service Center shall serve as the fiscal officer of AEA.

The Treasurer of the Auglaize County Educational Service Center shall perform the following functions while serving as the Treasurer of AEA:

- a. Maintain the financial records of AEA in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- b. Comply with the policies and procedures regarding internal financial control of AEA;
- c. Comply with the requirements and procedures for financial audits by the Auditor of the State.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. RELATED PARTY TRANSACTIONS

In fiscal year 2006, purchased services were obtained from the Auglaize County Educational Service Center by AEA, in the amount of \$313,005. The amount of these purchased services was as follows:

<u>Service</u>	<u>Amount</u>
Salaries	\$164,521
Fringe Benefits	38,503
Purchased Services	109,381
Capital Outlay	600
Total	<u>\$313,005</u>

7. CONTINGENCIES

A. Grants

AEA received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of AEA at June 30, 2006.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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 conclusions of this review could result in State funding being adjusted. The information pertaining to any potential adjustment is not available at this time.

C. Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on AEA is not presently determinable.



Mary Taylor, CPA

Auditor of State

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

Auglaize Educational Academy
Auglaize County
1045 Dearbaugh Street
Wapakoneta, Ohio 45895

To the Board of Directors:

We have audited the basic financial statements of the Auglaize Educational Academy, Auglaize County, (AEA), as of and for the year ended June 30, 2006, and have issued our report thereon dated March 21, 2007, wherein, we noted AEA uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 AEA'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. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the AEA'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 an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the AEA's management dated March 21, 2007, we reported other matters related to noncompliance we deemed immaterial.

Auglaize Educational Academy
Auglaize County
Independent Accountants' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required By *Government Auditing Standards*

We intend this report solely for the information and use of the management and the Board of Directors. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 21, 2007

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issued guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03(B) and Community School Contract (10/15/02) Article III B Financial Plan requires the Auglaize County Educational Academy (AEA) to prepare its annual financial report in accordance with generally accepted accounting principles.

AEA prepared their financial statements and notes following the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time. Pursuant to Ohio Rev. Code Section 117.38, the AEA may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Auglaize Educational Academy should prepare their financial statements in accordance with generally accepted accounting principles.

Official's Response:

The Auglaize County Educational Academy has chosen to prepare OCBOA financial statements instead of GAAP financial statements for fiscal year 2006 due to cost effectiveness.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Revised Code Section 117.38 Ohio Adm. Code Section 117-2-03(B) Required to file GAAP statements.	No	Repeated as finding 2006-001.



Mary Taylor, CPA
Auditor of State

AUGLAIZE EDUCATIONAL ACADEMY

AUGLAIZE 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 10, 2007**