



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, as of and for the year ended June 30, 2007, 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, as of June 30, 2007, 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 December 10, 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

December 10, 2007

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of the Auglaize Educational Academy's (AEA) financial performance provides an overall review of AEA's financial activities for the fiscal year ended June 30, 2007, 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.

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 2007 and fiscal year 2006:

Table 1		
Net Assets		
	2007	2006
Assets:		
Current Assets	\$324,196	\$189,261
Net Assets:		
Restricted For:		
Other Purposes	8,190	
Unrestricted	316,006	189,261
Total Net Assets	\$324,196	\$189,261

Net assets increased significantly, in the amount of \$134,935. During fiscal year 2007, AEA received the final appointment of start-up grants although all of the costs related to the start-up occurred in fiscal year 2006.

Table 2 reflects the change in net assets for fiscal year 2007 and fiscal year 2006.

Table 2		
Change in Net Assets		
	2007	2006
Operating Receipts		
Foundation	\$418,475	\$330,501
Non-Operating Receipts		
Interest	11,802	10,931
Non operating Grants	275,451	164,928
Total Non-Operating Receipts	287,253	175,859
Total Receipts	705,728	506,360

(Continued)

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

**Table 2
Change in Net Assets
(Continued)**

	2007	2006
Operating Disbursements		
Purchased Services	327,223	332,691
Materials and Supplies	62,130	141,494
Other	423	520
Capital Outlay	181,017	50,020
Total Disbursements	570,793	524,725
Increase (Decrease) in Net Assets	134,935	(18,365)
Net Assets at Beginning of year	189,261	207,626
Net Assets at End of Year	\$324,196	\$189,261

Foundation receipts increased 27 percent from increased student enrollment. Non-operating grants increased 67 percent from receiving the final apportionment of start-up grants in fiscal year 2007.

Disbursements did not change significantly from fiscal year 2006.

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 continuing to increase due to parents being aware that AEA is available as an education alternative.

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, 2007**

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	<u>\$324,196</u>
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Net Assets:

Restricted For:

Other Purposes	8,190
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Unrestricted	<u>316,006</u>
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Total Net Assets	<u><u>\$324,196</u></u>
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See accompanying notes to the basic financial statements.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN NET ASSETS
CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Operating Receipts:	
Foundation	\$418,475
Operating Disbursements:	
Purchased Services	327,223
Materials and Supplies	62,130
Other	423
Capital Outlay	181,017
Total Operating Disbursements	<u>570,793</u>
Operating Loss	(152,318)
Non-Operating Receipts (Disbursements):	
Interest Revenue	11,802
Non-operating Grants	275,451
Total Non-Operating Receipts (Disbursements)	<u>287,253</u>
Change in Net Assets	134,935
Net Assets at Beginning of Year	<u>189,261</u>
Net Assets at End of Year	<u><u>\$324,196</u></u>

See accompanying notes to the basic financial statements.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF CASH FLOWS
CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$418,475
Cash Payments for Purchased Services	(327,223)
Cash Payments for Materials and Supplies	(62,130)
Cash Payments for Other Expenses	(423)
Net Cash Used for Operating Activities	<u>28,699</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Non-operating Grants	275,451
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Cash Flows from Capital and Related Financing Activities:

Cash Payments for Capital Outlay	(181,017)
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Cash Flows from Investing Activities:

Cash Received from Interest on Investments	<u>11,802</u>
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Net Decrease in Cash and Cash Equivalents	134,935
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Cash and Cash Equivalents at Beginning of Year	<u>189,261</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$324,196</u></u>
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See accompanying notes to the basic financial statements.

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**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL

Auglaize 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 2007, AEA purchased services from the Auglaize County Educational Service Center to provide instructional, professional development, administrative, and curriculum development services for AEA. (See Note 7)

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; statement of receipts, disbursements, and change in net assets; and a statement of cash flows.

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.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(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 for Ohio Rev. Code Section 5705.391(A) which requires the school to prepare a five year projection. The contract between AEA and its Sponsor does prescribe an annual budget requirement.

D. Cash and Cash Equivalents

Cash and cash equivalents 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 2007, the AEA's investments were limited to nonnegotiable certificates of deposit.

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.

3. COMPLIANCE

ASN is required to present its financial statements in accordance with generally accepted accounting principles. However, ASN prepared its financial statements on a cash basis of accounting.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS

At June 30, 2007, the carrying amount of the AEA's bank balance was \$324,196. Based on the criteria described in GASB Statement No 40, "*Deposit and Investment Risk Disclosure*," as of June 30, 2007, none of AEA's bank balance of \$324,196 was exposed to custodial risk.

Custodial credit risk is the risk that in the event of bank failure, the AEA 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.

5. 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 2007, 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	3,000,000
Aggregate	5,000,000
Building and Personal Property	2,853,947

6. 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, 2007
(Continued)**

7. RELATED PARTY TRANSACTIONS

In fiscal year 2007, purchased services and materials and supplies were obtained from the Auglaize County Educational Service Center by AEA, in the amount of \$501,708. The amount of these purchased services and materials and supplies was as follows:

<u>Service</u>	<u>Amount</u>
Salaries	\$208,517
Fringe Benefits	52,786
Purchased Services	39,356
Materials and Supplies	93,381
Capital Outlay	107,668
Total	<u>\$501,708</u>

8. 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, 2007.

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 lawsuit entitled "*Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*" was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314; violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on Auglaize Educational Academy cannot presently be determined.



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 financial statements of the Auglaize Educational Academy, Auglaize County, (the AEA), as of and for the year ended June 30, 2007, and have issued our report thereon dated December 10, 2007, wherein we noted the 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the AEA's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the AEA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the AEA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the AEA's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the AEA's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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 that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

AEA's response to the finding identified in our audit is described in the accompanying schedule of findings.

We intend this report solely for the information and use of management, the Board of Directors and the community school's sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 10, 2007

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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NONCOMPLIANCE FINDING NUMBER 2007-001

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 issue 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 Educational Academy (AEA) to prepare its annual financial report in accordance with generally accepted accounting principles.

AEA prepared its 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.

Officials' Response:

The governing board has determined that GAAP financial statements will not be prepared due to cost concerns.

**AUGLAIZE EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Revised Code Section 117.38 Ohio Adm. Code Section 117-2-03(B) Required to file GAAP statements.	No	Repeated as finding 2007-001.



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
FEBRUARY 12, 2008**