



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



JADES ACADEMY  
LUCAS COUNTY

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## REPORT OF INDEPENDENT ACCOUNTANTS

JADES Academy  
Lucas County  
c/o Lucas County Educational Service Center  
415 Emerald Avenue, 2<sup>nd</sup> Floor  
Toledo, Ohio 43602-1817

To the Sponsor:

We have audited the Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance of JADES Academy (the Academy) for the fiscal period July 1, 2000 through July 31, 2001. These financial statements are the responsibility of The Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States. As discussed in Note 2, the Academy chose to prepare its financial statements on a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit certain assets, liabilities, and fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balance of the Academy as of July 31, 2001, and its cash receipts and disbursements for the fiscal period then ended on the basis of accounting described in Note 2.

As discussed in Note 1 to the financial statements, the Academy suspended operations effective July 31, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2002 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Governing Board and the Sponsor authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

February 12, 2002

**JADES ACADEMY  
LUCAS COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCE  
FOR THE FISCAL PERIOD JULY 1, 2000 THROUGH JULY 31, 2001**

**Operating Cash Receipts:**

Foundation Payments	\$634,395
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**Operating Cash Disbursements:**

Fringe Benefits	35,484
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Purchased Services	<u>685,414</u>
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Total Operating Cash Disbursements	<u>720,898</u>
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Excess of Operating Cash Receipts (Under) Operating Cash Disbursements	<u>(86,503)</u>
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**Non-Operating Cash Receipts (Disbursements):**

Interest	2,030
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Operating Grants - State	4,140
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Operating Grants - Federal	46,016
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Miscellaneous	3,826
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Transfer of Residual Cash Balance to Sponsor	<u>(14,004)</u>
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Total Non-Operating Cash Receipts (Disbursements)	<u>42,008</u>
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Excess of Cash Receipts (Under) Cash Disbursements	(44,495)
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Fund Cash Balance at Beginning of Fiscal Period	<u>44,495</u>
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<b>Fund Cash Balance at End of Fiscal Period</b>	<b><u><u>\$0</u></u></b>
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*The notes to the financial statements are an integral part of this statement.*

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**JADES ACADEMY  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FISCAL PERIOD JULY 1, 2000 THROUGH JULY 31, 2001**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

JADES Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's objective is to seek to provide an innovative holistic school experience by addressing the educational, social, emotional, and economic needs of severely at-risk or adjudicated adolescent offenders for youth grades 5 through 12. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 1, 1998. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy, (see note 10).

The Academy operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Governing Board has entered into a management contract with Boysville of Michigan (Boysville), a non-profit corporation, for management services and operation of its school. Boysville controls the Academy's one instructional/support facility. In exchange for its services, Boysville receives a management fee equal to all direct costs for operation of the Academy, including staff and supervisor compensation, rent, supplies, equipment, and books. Boysville also receives a management fee for indirect costs, (see Note 9).

**Closing of the Academy**

The Governing Board suspended operations of the Academy effective July 31, 2001. After payment of expenses, the Academy had a cash balance of \$14,004. The sponsorship agreement requires all remaining assets be transferred to the sponsor, and, accordingly, a check for this amount was issued to Lucas County Educational Service Center to close out the Academy's account.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States, the Academy chose to prepare its financial statements on a basis of accounting that is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

**JADES ACADEMY  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FISCAL PERIOD JULY 1, 2000 THROUGH JULY 31, 2001  
(Continued)**

**B. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

**C. Cash and Investments**

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

During the fiscal period July 1, 2000 through July 31, 2001, investments were limited to repurchase agreements. At fiscal period-end the Academy did not have any investments.

**D. Intergovernmental Revenues**

The Academy participated in the State Foundation Program. Revenues from this program are recognized as operating revenues in the accounting period in which they are received.

**3. DEPOSITS AND INVESTMENTS**

At fiscal period end July 31, 2001, the Academy had a cash balance of \$0. The bank balance was \$0.

**4. RISK MANAGEMENT - Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2001 the Academy contracted with Cincinnati Insurance, Co. for property and general liability insurance.

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

**5. STATE SCHOOL FUNDING DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

**JADES ACADEMY  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FISCAL PERIOD JULY 1, 2000 THROUGH JULY 31, 2001  
(Continued)**

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 12, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

**6. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. Any such disallowed claims from such audits could become liabilities of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the Academy at July 31, 2001.

**B. Ohio Community School Program**

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

**7. PURCHASED SERVICE EXPENSES**

For the fiscal year ended June 30, 2001, purchased service expenses were payments of the management contract with Boysville and payment for financial services from Lucas County Educational Service Center, as follows

<b>Purchased Services</b>	
Boysville of Michigan, Inc. (See Note 9)	\$678,983
Lucas County Educational Service Center (See Note 10)	<u>6,431</u>
Total Purchased Services	<u><u>\$685,414</u></u>

**8. RELATED PARTY**

During fiscal year 2001, the Academy entered into a one-year renewable lease for a facility owned by St. Anthony's Villa, which is operated by Boysville (see Note 9). Two Board members of the Academy are also employees of Boysville. The Academy contracts with Boysville for operation of its school, including program evaluation; human resources; staffing, supervision and performance review;

**JADES ACADEMY  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FISCAL PERIOD JULY 1, 2000 THROUGH JULY 31, 2001  
(Continued)**

fiscal services and accounting; and audit and rule compliance. As stated above, in Note 7, the Academy paid Boysville \$678,983.

**9. MANAGEMENT CONSULTING CONTRACT**

The Academy entered into a one-year contract, on August 23, 2000, effective July 1, 2000 through June 30, 2001, with Boysville of Michigan, Inc. for operational services. Under the contract, Boysville is required to provide the following services:

- A. Full and complete operation and administration of every aspect of the Academy.
- B. Carrying out the policies of the Board of Trustees of the Academy and implementing the contract.
- C. Performance and full compliance with every term and condition of the contract.
- D. Fiscal services and accounting in connection with the Academy, including written budgetary reports of the Academy.
- E. Evaluations under appropriate legal and professional guidelines including written reports regarding program evaluation.
- F. All human resource functions.
- G. Full responsibility for staffing the Academy, supervising the staff, and reviewing the performance of the staff.
- H. Ensuring that appropriate audits are performed and that the Academy is operated in full compliance with applicable laws, rules, regulations, and professional standards.
- I. Pay all direct costs of the Academy, including staff and supervisor compensation, rent, supplies, equipment, books, etc., pursuant to the contract and all applicable laws, rules and regulations.
- J. Pay all indirect costs of the Academy incurred on behalf of the Academy, to be compensated by the Academy, for a fee of \$40,042.
- K. Lease approximately 10,000 square feet of space to the Academy, during school hours, the premises on which the Academy is operated at a rate of \$4.92 per square foot per year, with rent to be paid in monthly installments.

**10. FISCAL AGENT**

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

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of the Academy:

**JADES ACADEMY  
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FISCAL PERIOD JULY 1, 2000 THROUGH JULY 31, 2001  
(Continued)**

1. Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor's or any other Community School's funds;
2. Maintain all books and accounts of all funds of the Academy;
3. Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;
4. Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
5. Invest funds of the Academy in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with the Sponsor's or any other community school; and
6. Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and available funds.

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

JADES Academy  
Lucas County  
c/o Lucas County Educational Service Center  
415 Emerald Avenue, 2nd Floor  
Toledo, Ohio 43602-1817

To the Sponsor:

We have audited the financial statements of JADES Academy (the Academy) for the 13-month period ended July 31, 2001, and have issued our report thereon dated February 12, 2002, in which we noted the Academy suspended operations and chose to prepare its financial statements on a comprehensive basis of accounting other than accounting principles generally accepted in the United States. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10148-001.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

JADES Academy  
Lucas County  
Report of Independent Accountants on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
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This report is intended for the information and use of management, the Governing Board and the Sponsor, and is not intended to be and should not be used by anyone other than this specified party.

**Jim Petro**  
Auditor of State

February 12, 2002



**JADES ACADEMY  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2001**

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

**FINDING NUMBER 2001-10148-001**

Ohio Administrative Code § 117-2-3 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States. However, the Academy prepared its financial statements on a comprehensive basis of accounting that is similar to the cash receipts and disbursements basis of accounting, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.





STATE OF OHIO  
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**JADES ACADEMY**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 7, 2002**