



**Auditor of State
Betty Montgomery**

EXCEL INSTITUTE
FRANKLIN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Excel Institute
Franklin County
2952 Dover Road
Columbus, Ohio 43209

To the Board of Governors:

We have audited the accompanying financial statement of Excel Institute, Franklin County, Ohio (the Institute) as of and for the year ended June 30, 2004. This financial statement is the responsibility of the Institute's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 Section 117-2-03 (B) requires the Institute to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity-wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the accompanying financial statement does not present fairly the financial position, results of operations, and cash flows, where applicable, of the Institute as of and for the year ended June 30, 2004 in accordance with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 9, the Institute was placed on suspension status by the Ohio Department of Education on June 18, 2004, and ceased operations. Subsequently, on July 1, 2005, the Ohio Department of Education voided their community school contract and the Institute forfeited any further possibilities of reopening.

The Institute has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determine is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2005, on our consideration of the Institute'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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.

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

Betty Montgomery
Auditor of State

September 13, 2005

**EXCEL INSTITUTE
FRANKLIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Miscellaneous	\$1,624
Total Operating Cash Receipts	1,624
Operating Cash Disbursements:	
Personal Services	133,313
Fringe Benefits	29,918
Contractual Services	116,397
Supplies and Materials	24,623
Capital Outlay	586
Total Operating Cash Disbursements	304,837
Operating Loss	(303,213)
Non-Operating Cash Receipts:	
Intergovernmental Receipts	244,207
Proceeds from Loans	13,200
Total Non-Operating Cash Receipts	257,407
Non-Operating Cash Disbursements:	
Loan Principal Payment	3,000
Other Non-Operating Cash Disbursements	7,515
Total Non-Operating Cash Disbursements	10,515
Net Receipts (Under) Disbursements	(56,321)
Fund Cash Balance, July 1	56,773
Fund Cash Balance, June 30	\$452

The notes to the financial statement are an integral part of this statement.

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**EXCEL INSTITUTE
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Excel Institute (the Institute) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Institute 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 Institute's tax-exempt status. The Institute's objective is to provide and coordinate educational, social, recreational, mental, physical, and emotional services to at-risk and typical children in a multi-age learning community that serves the child and the child's family group. With a vision of insuring students receive a holistic and individual educational opportunity that improves their academic performance, students are enrolled in a classroom with a 15-to-1 teacher ratio. Currently, grades 7 through 12 are served. The Institute, 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 Institute may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Institute was approved for operation under a contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 19, 2002. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Institute operates under the direction of a self-appointed six member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Institute's one instructional/support facility staffed by 4 non-certified and 6 certificated full time teaching personnel who provide services to 39 students.

The Institute entered into a fiscal agent agreement with the Lucas County Educational Service Center, (LCESC). The agreement provides that the Treasurer of the LCESC shall serve as the Chief Fiscal Officer of the School. LCESC served as the fiscal agent from July 2003 to January 2004. The Institute then entered into an agreement with Ohio Community School Consultants for the time period of February to May 2004 and then the Institute contracted with ACE for June 2004.

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 Institute's contract with its Sponsor. The contract between the Institute 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

All monies received by the Institute are accounted for by the Institute's fiscal agent. All cash received by the fiscal agent is maintained in separate bank accounts in the Institute's name.

**EXCEL INSTITUTE
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

1. Enterprise Fund

This fund accounts for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges.

2. EQUITY IN CASH

The Ohio Revised Code prescribes allowable deposits. The carrying amount of cash and investments at June 30 was as follows:

	<u>2004</u>
Demand deposits	\$452

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. DEBT

Debt outstanding at June 30, 2004, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Loans	\$10,200	0%

The Institute received loans that were from the Executive Director to help defray operating costs. The loans are interest free with no terms of repayment. The loans were given with the understanding that when the student population increased and Institute was in a better financial situation, the terms of repayment would be determined. The institute repaid \$3,000 of the loan in fiscal year 2004. There was no collateral for this loan.

4. RETIREMENT SYSTEMS

The Institute's full-time employees belong to either State Teachers Retirement System (STRS) or the School Employees Retirement System (SERS). STRS and SERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004, SERS and STRS members contributed 10 percent of their wages and the Institute contributed an amount equal to 14 percent of participants' gross salaries. The Institute has paid all contributions required through June 30, 2004.

**EXCEL INSTITUTE
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

5. OTHER EMPLOYEE BENEFITS

A. Employee Medical, Dental, and Vision Benefits

The Institute has contracted through an independent carrier to provide medical, dental, and vision insurance to its full-time employees who work 40 or more hours per week. The Institute pays the full amount of the monthly premiums for all selected coverage (medical, dental, and vision).

6. STATE SCHOOL FUNDING DECISION

The suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's 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 on November 18, 2003. 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 County of Appeals for review on February 16, 2005. No oral argument has been set to date. The effect of this suit, if any on Excel Institute is not presently determinable.

7. FISCAL AGENT

The Institute entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the Institute from the State of Ohio. This agreement was terminated in January 2004, and Ohio Community School Consultants took over as the fiscal agent for the Institute until May 2004 when the Institute switched to ACE.

The fiscal agents shall perform all of the following functions while serving as the Chief Fiscal Officer of the Institute:

- Maintain custody of all funds received by the Institute in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Institute;
- Maintain all financial records of all state funds of the Institute and follow State Auditor procedures for receiving and expending state funds;
- Assist the Institute in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Institute in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the Institute 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 Institute so long as the proposed expenditure is within the approved budget and funds are available.

**EXCEL INSTITUTE
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. RISK MANAGEMENT

A. Property and Liability

The Institute is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, the Institute contracted with American Family Insurance Co. for property and general liability insurance with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate and no deductible.

B. Worker's Compensation

The Institute pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly gross payroll by a factor that is calculated by the State.

9. CEASED OPERATIONS / SUBSEQUENT EVENTS

On June 18, 2004, the Institute's Sponsor, the Ohio Department of Education (ODE) placed the Institute on suspended status and the school ceased operations due to the following factors:

- a. School's failure to ensure proper supervision
- b. School's failure to ensure proper administrative leadership; and
- c. School's known debt and projected expenses exceed the identified revenue

No acceptable management plan was adopted or given to ODE. As of July 1, 2005, ODE voided the Institute's community school contract and the Institute forfeited any further possibilities of reopening. The Institute's capital assets are accounted for and ODE is currently determining what course action is to be taken with the remaining assets.

The Institute was involved in a lawsuit and a judgment was awarded to the plaintiff in the amount of \$1,039 on November 3, 2004. This amount has not been repaid.



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*

Excel Institute
Franklin County
2952 Dover Road
Columbus, Ohio 43209

To the Board of Governors:

We have audited the financial statement of the Excel Institute, Franklin County, Ohio (the Institute) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 13, 2005, wherein we noted the Institute did not follow accounting principles generally accepted in the United States of America and also noted the Institute was placed on suspension on June 18, 2004, and their community school contract with ODE was subsequently voided on July 1, 2005. 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 Institute'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 Institute'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 as items 2004-002 and 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 conditions 2004-002 and 2004-003 listed above to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Institute'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.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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 as items 2004-001, 2004-004, 2004-005, and 2004-006.

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

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

Betty Montgomery
Auditor of State

September 13, 2005

**EXCEL INSTITUTE
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Management Plan

Ohio Rev. Code Section 3314.072 states in part that the provisions of this section are enacted to promote the public health, safety, and welfare by establishing procedures under which the governing authorities of community schools established under this chapter will be held accountable for their compliance with the terms of the contracts they enter into with their school's sponsors and the law relating to the school's operations. Suspension of the operation of a school imposed under this section is intended to encourage the governing authority's compliance with the terms of the school's contract and the law and is not intended to be an alteration of the terms of the contract.

Pursuant to the aforementioned Section, on June 18, 2004, the Institute's Sponsor, the Ohio Department of Education (ODE) placed the Institute on suspended status and the school ceased operations due to the following factors:

- a. School's failure to ensure proper supervision
- b. School's failure to ensure proper administrative leadership; and
- c. School's known debt and projected expenses exceed the identified revenue.

The Institute was given until September 30, 2004 to adopt a course of action to allow the Institute to function for the 2004-2005 school year. No management plan was adopted or given to ODE. As of July 1, 2005, ODE voided the Institute's community contract and the Institute forfeited any further possibilities of reopening.

FINDING NUMBER 2004-002

Monitoring Controls

Effective monitoring controls over financial operations were not implemented by the Institute's management or Board of Governors. Lack of effective monitoring controls could allow for operational failures and errors to occur without timely detection by management.

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

We recommend the Board develop and implement monitoring controls. Some of these monitoring controls may consist of, but should not be limited to, the following:

- regular review of monthly budgeted and actual figured;
- regular review of financial summaries (detailed revenue, expenditure, and fund balance reports);
- review of key performance indicators;
- review of payable aging reports;
- review of unusual or significant and long outstanding items;
- monitoring grant expenditures in accordance with grant requirements;
- ensuring adequate segregation of duties exist, and;
- review of monthly bank reconciliations.

**EXCEL INSTITUTE
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-003

Audit Committee

The Institute should establish an audit committee. The National Commission on Fraudulent Financial Reporting (known as the Treadway Commission), has stated that an audit committee can serve as “informed, vigilant, and effective overseers of the financial reporting process and internal controls.” An audit committee should perform the following functions:

- Review the annual unaudited financial report submitted to the Auditor of State;
- Periodically review the process used to prepare interim financial information submitted to the Board;
- Review the audit results;
- Assure that audit recommendations are appropriately addressed;
- Serve as a liaison between management and independent auditors.

Auditing standards generally accepted in the United States of America require that auditors communicate the following information to an audit committee:

- The auditors’ professional responsibility under generally accepted auditing standards;
- Selections of accounting standards;
- Sensitive accounting estimates;
- Significant audit adjustments;
- Disagreements with management;
- Difficulties encountered in performing the audit.

The audit committee can include members of the Board of Governors. However, it is preferable to include representation that is independent from officials and management. The audit committee could include professionals knowledgeable in the Institute’s operations and in accounting, such as attorneys or bankers. The audit committee should meet regularly (perhaps quarterly) to monitor the Institute’s financial reporting and control activities, and should meet with its independent auditors before and after each audit.

FINDING NUMBER 2004-004

GAAP Reporting

Ohio Rev. Code Section 3314.03(A)(8) requires that a community school file its financial reports in the same manner as school districts. 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 117-2-03 further clarifies the requirements of Ohio Revised Code 117.38

Ohio Administrative Code Section 117-2-03 (B) requires the Institute to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, for fiscal year ending June 30, 2004, the Institute did not report on a GAAP basis. Pursuant to Ohio Revised Code 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

**EXCEL INSTITUTE
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-004 (Continued)

GAAP Reporting (Continued)

We recommend the Institute take the necessary steps to ensure the annual financial report is prepared on a generally accepted accounting principles basis.

FINDING NUMBER 2004-005

Annual Report of Activities

Ohio Rev. Code Section 3314.03 (11) (g) states the school governing authority will submit within four months after the end of each school year a report of its activities and progress in meeting the goals and standards of divisions (A)(3) and (4) of this section and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight.

The Institute did not prepare or file the annual report with their sponsor, the legislative office of education oversight, or the parents of students enrolled in the school.

FINDING NUMBER 2004-006

Availability of Records

Ohio Rev. Code Section 149.43 states that all public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, governmental units shall maintain public records in such a manner that they can be made available for inspection.

During the course of the audit, we were unable to obtain all of the minutes recorded for meetings held during the audit period. Alternate procedures were performed to obtain needed information.

EXCEL INSTITUTE
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Monitoring Controls	No	Repeated



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

EXCEL INSTITUTE

FRANKLIN 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
OCTOBER 13, 2005**