



**Auditor of State
Betty Montgomery**

**POLLY FOX ACADEMY
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Polly Fox Academy
Lucas County
2238 Jefferson Avenue
Toledo, Ohio 43624-1120

To the Governing Board:

We have audited the accompanying basic financial statements of the Polly Fox Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2005, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do 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 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 27, 2005

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

The discussion and analysis of the Polly Fox Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of existence for the Academy and the first year of adoption of the new reporting model, comparative prior year information does not exist. Subsequent reports will include the comparative information.

Financial Highlights

- Net assets totaled (\$131,802).
- Total assets were \$80,657. Cash totaled \$5,268.
- Liabilities totaled \$212,459. Accrued wages and benefits amounted to \$1,688, accounts payable amounted to \$61,700 while payables to Toledo Public Schools amounted to \$149,071.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

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

(Table 1)
Net Assets

	2004
Assets	
Current Assets	\$ 80,657
<i>Total Assets</i>	80,657
 Liabilities	
Current Liabilities	212,459
<i>Total Liabilities</i>	212,459
 Net Assets	
Unrestricted	(131,802)
<i>Total Net Assets</i>	\$ (131,802)

Total assets totaled \$80,657. Cash and cash equivalents amounted to \$5,268. Intergovernmental Receivables amounted to \$59,528, primarily consisting of additional Foundation payments receivable, as determined by an Ohio Department Education audit. (see note 4) Prepaid assets were \$15,861. The most significant liabilities were payable to Toledo Public Schools in the amount of \$149,071.

Table 2 shows the changes in net assets for fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004
Operating Revenues:	
Foundation Payments	\$ 442,570
Disadvantaged Pupil Impact Aid	23,023
Non-Operating Revenues:	
State Grants	53,000
Other	1,461
Interest	1,096
<i>Total Revenues</i>	521,150

(Continued)

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

(Table 2) (Continued)
Change in Net Assets

	2004
Operating Expenses	
Salaries	10,708
Fringe Benefits	1,655
Purchased Services	638,111
Materials and Supplies	880
Other Expenses	1,598
<i>Total Expenses</i>	652,952
 <i>Decrease in Net Assets</i>	 \$ (131,802)

During the 2003-2004 school year, there were approximately 78 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2004 amounted to \$5,058 per student. Foundation revenue above also includes a \$36,505 adjustment as determined by the Ohio Department of Education based on the Ohio Department of Education review enrollment data and full time equivalency calculations made by the schools.

The Academy's business-type activities consist of enterprise activity. Community Schools receive no support from tax levies.

Most expenses are purchased services. Per contract, the School remits most of its revenue to Toledo Public Schools, which incurs costs on behalf of the Academy to provide instruction and other costs. See Note 14 for more details.

Capital Assets

The Academy's asset capitalize minimum is \$5,000. The Academy had no assets above the capitalization threshold.

Current Financial Issues

The Academy was formed in 2003 sponsored by Toledo Public Schools. An idea to service students at risk of dropping out of school was turned into a community school by petitioning the Ohio Department of Education for a charter. Through the efforts of many individuals, the charter was issued. The Academy was awarded a \$50,000 startup grant from the State of Ohio. The Academy has applied for a Federal startup grant totaling \$450,000. As of June 30, 2004 they have not received notification awarding the grant. The Academy officially opened on September 1, 2003, and students began reporting September 14, 2003. The building was subleased from Toledo Public Schools, who leased it from Mercy Hospital. The governing board of the Academy is composed of five members, each appointed. The Academy receives its finances primarily from state aide.

The average number of years experience for teachers was 15 years.

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Jim Larson-Shidler, Treasurer at Polly Fox Academy, 2238 Jefferson Avenue, Toledo, Ohio 43624 or e-mail at james.larson-shidler@tps.org.

**POLLY FOX ACADEMY
LUCAS COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 5,268
Intergovernmental Receivables	59,528
Prepaid	<u>15,861</u>

Total Current Assets 80,657

Liabilities

Current Liabilities:

Accounts Payable	61,700
Accrued Wages and Benefits	1,688
Amounts Payable to Toledo Public Schools	<u>149,071</u>

Total Current Liabilities 212,459

Net Assets

Unrestricted (131,802)

Total Net Assets \$ (131,802)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

Operating Revenues	
Foundation Payments	\$ 442,570
Disadvantaged Pupil Impact Aid	<u>23,023</u>
<i>Total Operating Revenues</i>	<u>465,593</u>
Operating Expenses	
Salaries	10,708
Fringe Benefits	1,655
Purchased Services	638,111
Materials and Supplies	880
Other	<u>1,598</u>
<i>Total Operating Expenses</i>	<u>652,952</u>
<i>Operating Loss</i>	<u>(187,359)</u>
Non-Operating Revenues	
State Grants	53,000
Interest	1,096
Other	<u>1,461</u>
<i>Total Non-Operating Revenues</i>	<u>55,557</u>
<i>Change in Net Assets</i>	(131,802)
<i>Net Assets Beginning of Year</i>	<u>-</u>
<i>Net Assets End of Year</i>	<u><u>\$ (131,802)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Foundation Payments	\$ 406,065
Cash Payments to Suppliers for Goods and Services	(880)
Cash Payments to Employees for Services	(9,875)
Cash Payments for Employee Benefits	(800)
Cash Payments for Purchased Services	(365,458)
Cash Payments to Management Company	(52,744)
Cash Payments to Others	(26,597)
	(50,289)

Net Cash Used for Operating Activities

(50,289)

Cash Flows from Noncapital Financing Activities:

Other Non-Operating Revenues	1,461
State Subsidies Received	53,000
	54,461

Net Cash Provided by Noncapital Financing Activities

54,461

Cash Flows from Investing Activities:

Interest	1,096
	1,096

Net Cash Provided by Investing Activities

1,096

Net Increase in Cash and Cash Equivalents

5,268

Cash and Cash Equivalents at Beginning of Year

-

Cash and Cash Equivalents at End of Year

\$ 5,268

(Continued)

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

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

Operating Loss	\$ (187,359)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Changes in Assets and Liabilities:	
(Increase) in Intergovernmental Receivable	(59,528)
(Increase) in Prepaids	(15,861)
Increase in Accounts Payable	61,700
Increase in Accrued Wages and Benefits	1,688
Increase in Amounts Payable to Toledo Public Schools	<u>149,071</u>
<i>Total Adjustments</i>	<u>137,070</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (50,289)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Polly Fox Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through twelve. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501c (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 was approved for operation under contract with the Toledo Public Schools (the Sponsor) for a period of five years commencing September 1, 2003. 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 Assistant Treasurer or Treasurer of the Sponsor shall serve as the Chief Financial Officer of the Academy (see note 12).

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 controls the Academy's one instructional facility staffed by 2 non-certified and 8 certificated full time teaching personnel who provide services to 78 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and annual appropriations and submit them to the Ohio Superintendent of Public Instruction.

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's Treasurer. All cash received by the Treasurer is maintained in separate bank accounts in the Academy's name.

For the purposes of the statement of cash flows and for presentation on the Statement of Net Assets, investments with original maturities of three months or less, at the time they are purchased by the Academy, are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During fiscal year 2004, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

F. Intergovernmental Revenues

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

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

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

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

The Academy also participates in the State Charter School Grant Program. Under this program, the Academy was awarded \$50,000 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

G. Prepaid Items

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

H. Operating Revenues and Expenses

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

I. Estimates

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

NOTE 3 - DEPOSITS

At fiscal year end, the carrying amount of the Academy's deposits was \$5,163, and the bank balance was \$6,477. The entire bank balance was covered by federal depository insurance.

Investments: The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at fiscal year end. Category 1 includes investments insured or registered for which securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name. The Academy's investments total \$105 (fair value) which is maintained in a STAR Ohio account, which is not categorized because it is not evidenced by securities that exist in physical or book form.

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, consisted of amounts due from other governments. All receivables are considered collectible in full.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
FY04 SB-2 DPIA	\$ 23,023
School Funding Adjustment	36,505
Total All Intergovernmental Receivables	<u>\$ 59,528</u>

NOTE 5 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the Academy was uninsured.

B. Workers' Compensation

The Academy does not pay directly into the State Workers' Compensation System. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. All employees are contracted through Toledo Public Schools, which pays the Workers' Compensation System based on their payroll.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2004 was \$1,439; 39.75 percent has been contributed for fiscal year 2004. \$541 represents the unpaid contribution for fiscal year 2004. The balance outstanding is reflected as an intergovernmental payable.

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

NOTE 7 - POSTEMPLOYMENT BENEFITS

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$485.

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

NOTE 8 - EMPLOYEE BENEFITS

Most employees of the Academy are employed by Toledo Public Schools. Policies and procedures are approved by the Toledo Public Schools' Board of Education and are applied to Compensated Absences, Insurance Benefits, and Deferred Compensation of staff purchased from Toledo Public Schools by contract.

NOTE 9 - RELATED PARTY TRANSACTION

A board member, Earl Apgar, was also a consultant for a portion of the year. The consultant was hired to form the community schools and subsequently became a board member once the Academy was officially formed. The individual was subsequently hired by Toledo Public Schools to be the principal of Toledo Education Center (collectively - Brigadoon, Phoenix, and Polly Fox Community Schools).

The following board members were the same for Brigadoon, Phoenix, and Polly Fox Academies that are sponsored by Toledo Public Schools: Earl Apgar, Joan Durgin, Adrienne Noel, Joan Kuchcinski, and Joan Reasonover. Each of the following board members received pay from the Academy: Mr. Apgar \$1,250; Ms. Durgin \$1,250; Ms. Noel \$1,250; Ms. Kuchcinski \$1,250; and Ms. Reasonover \$1,125.

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

The Academy's Fiscal Officer, James Larson-Shidler, received pay from the Academy of \$3,750 and he is also the Assistant to the Treasurer of Toledo Public Schools (TPS), the Sponsor/Management Company of the Academy. (see note 12)

Joan Durgin, Adrienne Noel, Joan Reasonover, and Joan Kuchcinski are still employed by TPS, the sponsor.

NOTE 10 – MANAGEMENT AGREEMENT

The Academy entered into a contract, effective July 1, 2003 through June 30, 2004 renewable each year up to five years, with Toledo Public Schools (TPS) for educational and financial management services. Total expenses to TPS were \$638,111 for the fiscal year ended June 30, 2004. In exchange for its services, TPS received \$585,367 to manage the Academy in addition to a management fee equal to 10 percent of revenue (\$40,572) and sponsorship fee equal to 3 percent of revenue (\$12,172). In addition, the Academy pays TPS an annual fee in the subsequent year totaling 100 percent of cash balance above \$100,000 of all funds paid to the Academy by the State of Ohio. Terms of the contract require TPS to provide the following:

- A. All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Academy;
- B. Implementation and administration of the Educational Program, including the selection of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs;
- C. All personnel functions, including professional development for the Academy principal, all instructional personnel, and support staff;
- D. All aspects of the business administration of the Academy;
- E. Transportation and food service for the Academy;
- F. A projects annual budget prior to each school year;
- G. Detailed statements of all revenues received, from whatever source, and detailed statements of all expenditures for services rendered to or on behalf of the Academy, whether incurred on-site or off-site, upon request;
- H. Annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy.
- I. Reports on Academy operations, finances, and students' performance, upon request; and
- J. Any other functions necessary or expedient for the administration of the Academy.

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

NOTE 11 - 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. ODE has conducted a review of the Academy's 2004 student enrollment data and FTE calculations. For fiscal year 2004, the results of this review resulted in an increase of \$36,505.

C. Litigation

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 Court of Appeals for review on February 16, 2005. No oral argument has been set to date. The effect of this suit, if any on the Academy is not presently determinable.

NOTE 12 – FISCAL

The sponsorship agreement states the Assistant Treasurer or Treasurer of the Toledo Public Schools shall serve as the Chief Financial Officer of the Academy. As part of this agreement, the Academy shall compensate the Assistant Treasurer \$5,000 annually. The amount paid to the Chief Financial Officer for fiscal year 2004 totaled \$3,750 and a liability in the amount of \$1,250 was accrued for the year ended June 30, 2004. (see note 9)

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

- A. Maintain custody of all funds received by the Academy;
- B. Maintain all accounts for the Academy;
- C. Maintain all financial records of the Academy and follow procedures for receiving and expending funds which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

- D. Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio; and
- E. 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 any funds of the Sponsor or any other community school.

NOTE 13 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

NOTE 14 – PURCHASED SERVICES

For the period ended June 30, 2004 purchased services expenses were payments for services rendered, as follows:

Instructional Services	\$ 391,552
Instructional Improvement Services	14,424
Staff Services	31,972
Management Services	4,800
Professional and Technical Services	41,925
Repairs and Maintenance	25,018
Building Lease Agreement	65,090
Telephone	378
Postage	1,633
Communications	1,987
Printing and Binding	703
Contracted Food Service	4,738
Transportation purchased	1,147
Toledo Public Schools Fees (Note 10)	52,744
Total Purchase Services and Fees	<u>\$ 638,111</u>

NOTE 15 – SUBSEQUENT EVENT

The Academy obtained insurance as of August 30, 2004 with Great American Insurance Group and Scottsdale Surplus Lines Company.

**POLLY FOX ACADEMY
LUCAS COUNTY**

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

Coverages are as follows:

Business Personal Property (\$1,000 deductible)	200,000
Educators Professional Liability per occurrence	1,000,000
Educators Professional Liability aggregate	1,000,000
General Liability:	
Per occurrence	1,000,000
Aggregate	3,000,000

NOTE 16 – OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into a lease for the period August 28, 2003 through August 28, 2004 with the Sponsor to lease space to house the Academy. Payments made totaled \$36,019 for the year ended June 30, 2004.

As of June 30, 2004, the Academy owed \$29,071 on the current year lease agreement which appears as a liability on the financial statement.

In August 2004, the Academy renewed the lease for an additional one-year term.

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**Auditor of State
Betty Montgomery**

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

Polly Fox Academy
Lucas County
2238 Jefferson Avenue
Toledo, Ohio 43624-1120

To the Governing Board:

We have audited the financial statements of the Polly Fox Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated September 27, 2005. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001 through 2004-004.

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 do not consider the reportable conditions listed above to be material weaknesses. In a separate letter to the Academy's management dated September 27, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-005 through 2004-010.

We intend this report solely for the information and use of management, the Governing Board, and Sponsor. 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 27, 2005

**POLLY FOX ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

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

FINDING NUMBER 2004-001

Reportable Condition

Developing and Implementing an Effective Monitoring Control System

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

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be in a more overview nature.

Monitoring controls should assist management in making informed decisions on operational and fiscal matters for the Academy, which can include:

- Regular review and approval of bank reconciliations, as submitted by the Fiscal Officer;
- Review of key performance indicators;
- Review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.), as submitted by the Fiscal Officer;
- Monitoring the original POs and comparing the encumbered amount to the actual invoices and if needed, additional POs should be issued with the appropriate approvals; and
- Ensuring an adequate segregation of duties exist.

FINDING NUMBER 2004-002

Reportable Condition

Expenditures

The Board members approve the monthly financial statements submitted by the Fiscal Officer, however, the Board is not provided invoices and other supporting documentation for their review and approval prior to payment being made. Expenditures of the Academy, made by the management company, Toledo Public Schools, lacked proper supporting documentation or contained no supporting documentation for the expenditures and in most cases were commingled with those associated with remaining two community schools operated by the same sponsor and/or management.

Management was advised that the failure to require the appropriate documentation for these expenditures could result in the Academy incurring expenditures that do not belong to this Academy.

**FINDING NUMBER 2004-002
(Continued)**

We recommend the following to help ensure that the expenditures of the Academy are appropriate expenditures of the Academy:

- Monthly review and approval of the Academy's expenditures, as disbursed by the Fiscal Officer;
- All supporting documentation be attached and reviewed prior to approval for payment;
- Supporting documentation be only for this Academy and not commingled with any other Academy under the Sponsor and/or Management Company's control.

FINDING NUMBER 2004-003

Reportable Condition

Consultant's Contract

Consultant Services Agreement, Services to be Provided, Payment of Fees, and Fees, states in part the Contractor (Mr. Earl Apgar) agrees to provide the Client's Sponsoring entity's (Toledo Public Schools – TPS) Chief Academic Officer, Mr. Craig Cotner, a written monthly update of both projects by the end of every month the contract is in effect invoices for services rendered must be submitted on a monthly basis by the Contractor to, and approved by the Client prior to payment.

The Contractor did not provide written monthly updates to the Sponsor as required in the Consultant Services Agreement prior to receiving payment. Besides not performing the requirements the Board minutes stated that "signatures of the Executive Director, Treasurer, and President of the Board are required on all contracts to be enforceable upon the Polly Fox Academy." The Consultant Services Agreement was not signed by the Executive Director.

The fiscal officer provided copies of minute records maintained by the Academy to Mr. Craig Cotner on July 13, 2005, which does not meet the requirements of the Consultant Service Agreement.

We recommend the Academy establish procedures to ensure contractual requirements are met and contractual policies adopted by the Academy are adhered to.

FINDING NUMBER 2004-004

Reportable Condition

Legal Counsel

The Academy has not obtained legal representation. Without legal counsel, any contracts, bylaws, and policies established by the Academy are not verified as to legal content and enforcement. We recommend the Academy obtain legal counsel for representation, interpretation of binding contracts, and adoption and amendments of bylaws and policies.

FINDING NUMBER 2004-005

Finding for Recovery – Repaid Under Audit

Polly Fox Academy and Toledo Public Schools (TPS) entered into a management agreement on the 1st day of July 2003. Polly Fox Academy and TPS also entered into a sponsorship agreement on the 27th day of January 2004. These agreements provided that Polly Fox would pay TPS for salaries, fringe benefits, etc.

Polly Fox Academy was billed for salaries and fringe benefits by Toledo Public Schools (TPS), who was engaged as their management company during fiscal year 2004. Rather than Polly Fox paying these expenses, Phoenix Academy, whose management company is also TPS, paid the aforementioned expenses.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money due but not collected is hereby issued against Polly Fox Academy, in the amount of \$16,768.09 and in favor of the Phoenix Academy.

On September 27, 2005 Polly Fox Academy reimbursed the Phoenix Academy for the expenditures paid in error. Polly Fox Academy issued check number 101142 dated September 26, 2005 in the amount of \$16,768.09 to the Phoenix Academy for this reimbursement.

FINDING NUMBER 2004-006

Noncompliance Citation

By-Laws of Polly Fox Academy, Article Three Section 5. Compensation states Members of the Board of Directors shall not receive any fee of their services as such, unless under special contract for services to the Corporation. On September 25, 2003, the Governing Board passed a board action that allowed for governing board members to be compensated for attending board meetings.

Board members received compensation of \$125 per meeting attended. For the fiscal year ended June 30, 2004 the total compensation paid to the Board members equaled \$6,125. Board members received compensation for their attendance at meetings which is contrary to their By-Laws. Therefore, we recommend the Academy adhere to their By-Laws or reexamine their By-Laws to ensure that they are in compliance with their own requirements.

On June 20, 2005 the Academy's Governing Board amended the By-Laws to allow the compensation to Governing Board Members.

FINDING NUMBER 2004-007

Noncompliance Citation

By-Laws of Polly Fox Academy, Article Five Section 1. Officers states the Board of Directors at its annual meeting shall elect the officers. The President, Vice-President, Secretary-Treasurer, and such other officers as the Board of Directors may deem fit shall be elected annually. The President, Vice-President, and Secretary-Treasurer shall be, and the other officers may, but need not be, elected from among the Directors.

**FINDING NUMBER 2004-007
(Continued)**

The Board Secretary which is also the Fiscal Officer was not elected from among the Directors which is contrary to the By-Laws. Therefore, we recommend the Academy adhere to their By-Laws or reexamine their By-Laws to ensure that they are in compliance with their own requirements.

On June 20, 2005 the Academy's Board amended the By-Laws to exclude the Fiscal Officer as a Board Member.

FINDING NUMBER 2004-008

Noncompliance Citation

Ohio Revised Code § 3314.03(A)(8) requires that a community school files its financial reports in the same manner as school districts. Ohio Revised Code § 117.38 requires GAAP-basis entities to file annual reports within 150 days after the close of the fiscal year. These reports must be filed on forms prescribed by the Auditor of State. However, if the Auditor of State has not prescribed a form for the report, the public office shall submit its report on the form utilized by the public office. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred fifty dollars.

The Academy did not file its annual report by the required due date with the Auditor of State. Therefore, we recommend the Academy file their annual report by the required date to avoid being assessed a penalty.

FINDING NUMBER 2004-009

Noncompliance Citation

Polly Fox Academy and Toledo Public Schools (TPS) entered into a management agreement on the 1st day of July 2003. Polly Fox Academy and TPS also entered into a lease agreement on the 28th day of August 2003, and a sponsorship agreement on the 27th day of January 2004. These agreements provided that Polly Fox would pay TPS for rent, salaries, fringe benefits, etc.

Polly Fox failed to comply with the terms of these contracts when they failed to pay money due to TPS for rent, salaries, and fringe benefits. No adjustments were made to correct this error by Polly Fox Academy's fiscal officer, James Larson-Shidler.

We recommend that Polly Fox review its contracts with TPS and comply with all requirements as stated therein. We further recommend that Polly Fox Board Members establish procedures to ensure bills due are paid in a timely manner.

FINDING NUMBER 2004-010

Noncompliance Citation

Obtaining Appropriate Insurance

Ohio Revised Code Section 3314.03(A)(11)(b) requires the governing authority to purchase liability insurance, or otherwise provide for liability at the school. The sponsorship contract between the Academy and the Toledo Public Schools (sponsor) stipulates, in pertinent part, that "General liability, errors and omissions, directors and officers and other miscellaneous insurance coverage at all times will be maintained in amounts not less than one million dollars (\$1,000,000) per occurrence and five million dollars (\$5,000,000) in the aggregate."

Contrary to the aforementioned contract provision, the Academy did not obtain the proper liability insurance coverage.

We recommend the Academy obtain the proper liability insurance coverage as stipulated in the sponsorship contract.

The Academy obtained liability coverage of \$1,000,000 per occurrence and \$3,000,000 in the aggregate effective 08/30/04 to 08/30/05.



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

POLLY FOX 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
NOVEMBER 10, 2005**