



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

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**STATE OF OHIO**



**ACADEMY OF BUSINESS AND TECHNOLOGY  
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## REPORT OF INDEPENDENT ACCOUNTANTS

Academy of Business and Technology  
Lucas County  
1462 Woodland Avenue  
Toledo, Ohio 43607

To the Governing Board:

We have audited the Balance Sheet of the Academy of Business and Technology, Lucas County, (Academy) as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year ended June 30, 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.

The Academy has not obtained an exemption from Federal income taxes. Therefore, its net earnings are subject to such income tax. The accompanying financial statements do not include a provision for income taxes or accrued income taxes, which we believe should be included to conform with accounting principles generally accepted in the United States of America.

Because of the departure referred to in the preceding paragraph, net income and retained earnings is overstated and liabilities for accrued income taxes are understated by amounts which, while material, we are unable to determine.

In our opinion, because of the effects of the matters discussed in the previous two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Academy as of June 30, 2001, or the results of its operations or its cash flows for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

**Jim Petro**  
Auditor of State

June 11, 2002

**ACADEMY OF BUSINESS AND TECHNOLOGY  
BALANCE SHEET  
AS OF JUNE 30, 2001**

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**Assets**

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$275,761
Grant Revenue Receivable	235,768
Accounts Receivable	<u>8,404</u>
Total Current Assets	519,933

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>138,535</u>
Total Assets	<u><u>\$658,468</u></u>

**Liabilities and Fund Equity**

Current Liabilities

Accounts Payable	\$366,433
Accrued Wages	<u>23,876</u>
Total Liabilities	390,309

Fund Equity

Retained Earnings Unreserved	<u>268,159</u>
Total Liabilities and Fund Equity	<u><u>\$658,468</u></u>

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

**ACADEMY OF BUSINESS AND TECHNOLOGY  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2001**

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**Operating Revenues**

Foundation Payments	\$1,207,954
Disadvantaged Pupil Impact Aid	<u>220,219</u>
Total Operating Revenues	<u>1,428,173</u>

**Operating Expenses**

Salaries	581,318
Fringe Benefits	150,418
Purchased Services	646,437
Materials and Supplies	90,783
Depreciation	<u>44,047</u>
Total Operating Expenses	<u>1,513,003</u>
Operating Loss	<u>(84,830)</u>

**Non-Operating Revenues (Expenses)**

Grants - State	25,097
Grants - Federal	<u>351,188</u>
Total Non-Operating Revenues (Expenses)	<u>376,285</u>
Net Income	291,455
Accumulated Deficit at Beginning of Period (as reststed in Note14)	<u>(23,296)</u>
Retained Earnings at End of Period	<u><u>\$268,159</u></u>

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



**ACADEMY OF BUSINESS AND TECHNOLOGY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2001**

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**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from State Foundation and Disadvantaged Pupil Impact Aid	\$1,428,173
Cash Payments to Suppliers for Goods and Services	(510,614)
Cash Payments to Employees for Services	(591,361)
Cash Payments for Employee Benefits	<u>(159,331)</u>
Net Cash Provided By Operating Activities	166,867

**Cash Flows from Noncapital Financing Activities**

Grants Received - State	25,097
Grants Received - Federal	<u>115,420</u>
Net Cash Provided by Noncapital Financing Activities	140,517

**Cash Flows from Capital and Related Financing Activities**

Payments for Capital Acquisitions	<u>(31,930)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(31,930)</u>
Net Increase in Cash and Cash Equivalents	275,454
Cash and Cash Equivalents at the Beginning of the Year	<u>307</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$275,761</u></u>

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

Operating Loss	(\$84,830)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Provided by Operating Activities**

Depreciation	44,047
Changes in Assets and Liabilities	
Decrease in Prepaid Items	12,260
Decrease in Accounts Receivable	18,409
Increase in Accounts Payable	228,207
Decrease Accrued Wages	(6,960)
Decrease in Intergovernmental Payable	<u>(44,266)</u>
Total Adjustments	<u>251,697</u>
Net Cash Provided by Operating Activities	<u><u>\$166,867</u></u>

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

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**ACADEMY OF BUSINESS AND TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

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

The Academy of Business and Technology (Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's objective is to prepare all students to be successful citizens, cooperative workers and profitable entrepreneurs by developing their unique potential. This program is offered for students in kindergarten through sixth grade. 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 school.

The Academy was approved for operation under a contract with the University of Toledo Charter School Council (the Sponsor) for a period of five years commencing August 15, 1999. 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. In consideration of permitting the creation of the Academy, in consideration for the time, organization, oversight, fees and costs of the Sponsor, the Academy makes annual payments of 3% of the total state and federal funds received each year to the Sponsor.

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/support facility with a staffing level of 8 non-certified and 17 certificated full time teaching personnel who provide services to 327 students.

The Governing Board has entered into a management contract with Charter School Administration Services, Inc. (CSAS), to provide consulting services including teacher training, curriculum development, financial management, and State relations. (See Note 16).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 statements and interpretations issued on or before November 30, 1989, 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**

*Enterprise Accounting* is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**ACADEMY OF BUSINESS AND TECHNOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(Continued)**

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by its 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 balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. 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.

**D. Cash and Cash Equivalents**

All monies received by the Academy are accounted for by the Academy's management company, the Charter School Administration Services, Inc. (CSAS), which serves as the Academy's fiscal agent. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name. Monies for all funds of the Academy are maintained in this account or temporarily used to purchase short-term investments. For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

**E. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The Academy does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture and equipment and leasehold improvements is computed using the straight-line method over an estimated useful life of five years.

**F. Intergovernmental Revenues**

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

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

**ACADEMY OF BUSINESS AND TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

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 Federal Charter School Grant Program through the Ohio Department of Education. During 2001 the Academy received the second half of their start-up award, \$50,000, to offset start-up costs of the school. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

**3. DEPOSITS**

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At June 30, 2001, the carrying amount of the Academy's deposits was \$275,761 and the bank balance was \$296,107. At June 30, 2001, \$196,107 of deposits were not insured or collateralized.

**4. RECEIVABLES**

Receivables at June 30, 2001, consisted of, accounts (miscellaneous reimbursements) receivables which are considered collectible in full and grant revenue receivables which are considered collectible in full due to the current year guarantee of federal funds.

**5. FIXED ASSETS**

A summary of the Academy's fixed assets at June 30, 2001, follows:

Furniture and Equipment	\$ 61,669
Leasehold Improvements	158,566
Subtotal	<u>220,235</u>
Less: Accumulated Depreciation	<u>(81,700)</u>
Net Fixed Assets	<u><u>\$ 138,535</u></u>

**6. 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. For the period July 19, 2000 through July 19, 2001, the Academy contracted with Employers Mutual Casualty Company for property and general liability insurance.

Professional liability is protected by Employers Mutual Casualty Company with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate and no deductible.

**ACADEMY OF BUSINESS AND TECHNOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(Continued)**

**B. Workers' Compensation**

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

**C. Employee Medical, Dental, Vision, Prescription, and Life Benefits**

The Academy has contracted with private carriers to provide employee medical, dental, vision, prescription, and life insurance to its full time employees who work 40 or more hours per week.

**7. DEFINED BENEFIT PENSION PLANS**

**A. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose the Social Security System. As of June 30, 2001, the Academy has one employee who contribute to the Social Security System.

**B. School Employees Retirement System**

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; for the year June 30, 2001, 4.2 percent was the portion to fund pension obligations. For fiscal year 2000, 5.5 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the years ended June 30, 2001 and 2000 were \$2,423 and \$2,869; 89 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. The unpaid contribution for fiscal year 2001, in the amount of \$749 is recorded as a liability.

**C. State Teachers Retirement System**

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**ACADEMY OF BUSINESS AND TECHNOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(Continued)**

Plan members are required to contribute 9.3 percent of their annual covered salary and the Academy is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for the year 2001. For fiscal year 2000, 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Academy's required contribution for pension obligations to STRS for fiscal years 2001 and 2000 were \$50,115 and \$29,007; 98 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. The unpaid contribution for fiscal year 2001, in the amount of \$1,024, is recorded as a liability.

**8. POSTEMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and 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 Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$23,739 during the year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000, and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay has been established at \$12,400. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$8,332 for fiscal year 2001.

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 annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140,696,340, and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**ACADEMY OF BUSINESS AND TECHNOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(Continued)**

**9. 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.

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 June 11, 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.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration. As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**10. 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. 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, 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.

**C. School Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of this review, the Academy's state foundation funding will be increased by \$5,372 in fiscal year 2002.



**ACADEMY OF BUSINESS AND TECHNOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(Continued)**

**11. OPERATING LEASES**

The Academy has entered into a sublease for the period August 1, 1999 through July 31, 2004 with "Academy of America, a Michigan non-profit corporation", which leases from "Covenant Development Corporation", to lease space to house the Academy. Payments made totaled \$41,520 for the period. The Academy has the option to renew the lease for an additional three-year term, with the rent increase(s) not to exceed four percent.

The Academy has entered into a lease commencing July 13, 1999 for a term of 36 months for a copier. Payments made totaled \$2,297 for the period. The copier is owned by SAVIN Credit Corporation. The Academy entered into an additional lease with SAVIN Credit Corporation for another copier, commencing March 16, 2000, for a term of 36 months. Payments made for the second copier totaled \$4,667 for the fiscal year.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2001.

Fiscal Year Ending June 30,	Facility Rental	Copiers
2002	\$41,520	\$7,172
2003	41,520	4,544
2004	41,520	
2005	3,460	
Total minimum payments	<u>\$128,020</u>	<u>\$11,716</u>

**12. PURCHASED SERVICE EXPENSES**

For the period ended June 30, 2001, purchased service expenses were payments for services rendered, as follows:

***PURCHASED SERVICES***

Administration Fees to Sponsor <b>(See Note 1)</b>	\$43,407
Advertising	38,779
Consulting Fees	18,051
Insurance	4,038
Leased Equipment	13,434
Maintenance and Repairs	15,089
Management Company Fees <b>(See Note 16)</b>	186,244
Overhead Fees to Management Company <b>(See Note 17)</b>	225,522
Professional Fees	23,810
Rent	41,520
Telephone	11,935
Meeting Expenses	810
Utilities	23,798
Total Purchased Services	<u>\$646,437</u>

**ACADEMY OF BUSINESS AND TECHNOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(Continued)**

**13. TAX EXEMPT STATUS**

The Academy has not filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code, and does not intend to file for tax exempt status. The Academy has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.

**14. PRIOR PERIOD ADJUSTMENT**

As of June 30, 2000, materials and supplies expense was understated by \$36,845 and depreciation expense was overstated by \$7,377 for fixed assets that were improperly capitalized. The restatement reduces net income and retained earnings by \$29,468, resulting in a restated net loss and accumulated deficit of \$23,296.

**15. RELATED PARTY**

The president of the leasing company (Covenant Development Corp., a 501(c)(3) tax exempt organization) for the facilities that the Academy rents (see below) is a board member of the Academy of Business and Technology and is the husband of the principal of the Academy. The Covenant Development Corp. leases the school to the Academy of America (Michigan) (a 501(c)(3) tax exempt organization), which sub-leases to the Academy of Business and Technology. Two of the board members of the Academy of Business and Technology are also directors of the Academy of America (Michigan), they are also both board members of the Academy of Dayton Community School, as well as shareholders of Charter School Administration Services, Inc., the management company for the Academy of Business and Technology.

Total rent payments to Academy of America (Michigan) were \$41,520. Total payments to Charter School Administration Services, Inc. were \$411,766, which includes management fees and overhead fees.

**16. MANAGEMENT AGREEMENT**

The Academy entered into a five-year contract, effective August 1, 1999 through July 31, 2004, with Charter School Administration Services, Inc. for educational management services, total payments to CSAS were \$186,244 for the fiscal year ended. Payments are current. In exchange for its services, CSAS receives a management fee equal to 12% of all revenue sources and is reimbursed for all cost incurred on behalf of the Academy. In addition, the Academy pays CSAS an annual incentive fee in an amount equal to fifty (50%) percent of the excess of revenue over expenditures, which was not collected by CSAS for the year ended June 30, 2001. Terms of the contract require CSAS 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 and acquisition 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 Administrator, all instructional personnel, and support staff.

**ACADEMY OF BUSINESS AND TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

- D. Control, maintenance, and operation of the school building, and the installation of technology integral to the school design.
- E. All aspects of the business administration of the Academy.
- F. Transportation and food service for the Academy.
- G. A projected annual budget prior to each school year.
- H. Detailed statements of all revenues received, from whatever source, and detailed statements of all direct expenditures for services rendered to or on behalf of the Academy, whether incurred on-site or off-site, upon request.
- I. Annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy.
- J. Reports on Academy operations, finances, and students' performance, upon request, but not less frequently than four (4) times per year.
- K. Any other function necessary or expedient for the administration of the Academy.

**17. CONSORTIUM AGREEMENT**

On January 14, 2000 the Governing Board approved joining a consortium with eighteen other charter schools and public school academies, each of which is managed by Charter School Administration Services, Inc. under management agreements comparable to the Management Agreement between the Academy and CSAS. The members of the consortium including the Academy are:

<u>Academy</u>	<u>State of Operation</u>
Academy of Austin	Texas
Academy of Beaumont	Texas
Academy of Dallas	Texas
Academy of Dayton	Ohio
Academy of Detroit West	Michigan
Academy of Flint	Michigan
Academy of Houston	Texas
Academy of Inkster	Michigan
Academy of Kansas City	Missouri
Academy of Lathrup Village	Michigan
Academy of Michigan	Michigan
Academy of Oak Park	Michigan
Academy of San Antonio	Texas
Academy of Southfield	Michigan
Academy of Business & Technology	Ohio
Academy of Westland	Michigan
Cherry Hill School of Performing Arts	Michigan
TUMC Academy	Florida

**ACADEMY OF BUSINESS AND TECHNOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(Continued)**

The Management Agreement between the Academy and CSAS provides for the allocation of indirect costs incurred by CSAS on behalf of the Academy and the other members of the consortium. Based upon the count of students at the Academy and the other members of the consortium as of September 1999, and the experiences of CSAS in both incurring costs for consortium members and allocation of such costs to consortium members, the Academy and CSAS have agreed upon an equitable method of such allocation. Based upon the above count, the Academy shall pay CSAS, for all indirect reimbursable expenses incurred by CSAS on behalf of the Academy and other members of the consortium, for the 2000-2001 school year, in an amount equal to \$67 per month per student enrolled at the Academy, totaling \$225,522 for the school year.

**18. SUBSEQUENT EVENTS**

On August 1, 2001 the Academy entered into a lease agreement with CSAS Real Estate Inc. for the lease of an additional facility. The lease is for five years at a cost of \$304,680 a year. The new facility will house the Parkwood Campus of the Academy of Business and Technology.



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

Academy of Business and Technology  
Lucas County  
1462 Woodland Avenue  
Toledo, Ohio 43607

To the Governing Board:

We have audited the financial statements of the Academy of Business and Technology, Lucas County, (Academy) for the year ended June 30, 2001, and have issued our report thereon dated June 11, 2002. Our report indicated the financial statements were not fairly presented in accordance with accounting principles generally accepted in the United States of America. The Academy did not obtain an exemption from Federal or Local Income taxes and no provision was established for taxes or accrued income taxes at June 30, 2001. 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 of America.

**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 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 that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10148-001, 2001-10148-002, 2001-10148-003, and 2001-10148-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Academy in a separate letter dated June 11, 2002.

**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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be 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 the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2001-10148-005, 2001-10148-006, and 2001-10148-007.

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. 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 to be material weaknesses. However, of the reportable conditions described above we believe items 2001-10148-005 and 2001-10148-006 are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated June 11, 2002.

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 these specified parties.



**Jim Petro**  
Auditor of State

June 11, 2002

**ACADEMY OF BUSINESS AND TECHNOLOGY  
SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED JUNE 30, 2001**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2001-10148-001**

**Noncompliance**

**Finding For Recovery - Repaid Under Audit**

Section 117.28, Revised Code, requires audit reports to set forth all instances of any public money which has been illegally expended

In October 2000, an invoice payable to Savin Credit Corporation was submitted for payment for the lease of two copy machines (\$1,355) and one printer (\$222) for a total of \$1,577. Check number 1512 was issued against the Academy's account for the full amount by Charter School Administrative Services, the Academy's management company and fiscal agent.

The two copy machines were not leased by the Academy, but were in fact leased by another Community School run by Charter School Administrative Services.

In accordance with the foregoing facts, a finding for recovery is hereby returned against Charter School Administrative Services in the amount of \$1,355 and in favor of the Academy of Business and Technology Community School.

Charter School Administrative Services issued a check from the accounts of The Academy of Dayton to the Academy of Business and Technology for \$1,355 to repay the finding.

**FINDING NUMBER 2000-10148-002**

**Noncompliance**

**Finding For Recovery - Repaid Under Audit**

Section 117.28, Revised Code, requires audit reports to set forth all instances of any public money which has been illegally expended

In October 2000, an invoice payable to Savin Credit Corporation was submitted for payment for the lease of one printer for a total of \$222. Check number 1557 was issued against the Academy's account for the full amount by Charter School Administrative Services, the Academy's management company and fiscal agent.

This invoice was previously paid with Check 1512.

In accordance with the foregoing facts, a finding for recovery is hereby returned against Charter School Administrative Services in the amount of \$222 and in favor of the Academy of Business and Technology Community School.

Charter School Administrative Services issued a check to the Academy of Business and Technology for \$222 to repay the finding.

**ACADEMY OF BUSINESS AND TECHNOLOGY  
SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED JUNE 30, 2001**

**FINDING NUMBER 2001-10148-003**

**Noncompliance**

**Finding For Recovery - Repaid Under Audit**

Section 117.28, Revised Code, requires audit reports to set forth all instances of any public money which has been illegally expended

Charter Schools Administrative Services provides teachers to the Academy and bills the Academy for these services. Payroll testing throughout the year revealed that billings were made for teachers for hours that they did not work or for a different rate of pay than authorized, resulting in overpayments for salaries and related taxes.

Recalculation of payroll amounts billed to the Academy by Charter Schools Administrative Services showed an overpayment of salary (\$3,897) and related taxes (\$562) for a total of \$4,459.

In accordance with the foregoing facts, a finding for recovery is hereby returned against Charter School Administrative Services in the amount of \$4,459 and in favor of the Academy of Business and Technology Community School.

Charter School Administrative Services issued a check to the Academy of Business and Technology for \$4,459 to repay the finding.

**FINDING NUMBER 2001-10148-004**

**Noncompliance**

**Ohio Revised Code § 3314.03 (A) (10)**, states all community school classroom teachers are to be licensed in accordance with Ohio Revised Code Sections 3319.22 to 3319.31, except that a community school may engage noncertificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Department of Education to these “noncertificated” persons in order to teach.

Five of the sixteen teachers that were tested were not certified with the Ohio Department of Education. We recommend the Governing Board establish procedures to help ensure all teachers are properly licensed.

**FINDING NUMBER 2001-10148-005**

**Material Weakness**

**Fixed Assets**

The following control weaknesses over fixed assets exist:

- The Academy has not developed a fixed asset accounting system which maintains total fixed asset listings, by location, with tag identification numbers and other supplemental information.
- The Academy has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the fiscal year.
- The Academy cannot locate invoices to support most of the fixed asset additions.



**ACADEMY OF BUSINESS AND TECHNOLOGY  
SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED JUNE 30, 2001**

**FINDING NUMBER 2001-10148-005 (Continued)**

**Material Weakness (Continued)**

**Fixed Assets (Continued)**

- The Academy has not developed and implemented procedures to perform periodic inventory of assets.
- The Governing Board has not developed a fixed asset policy wherein it sets forth the capitalization criteria for the Academy.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

To maintain adequate safeguards over fixed assets, and to reduce the risk that the Academy's assets will be misstated, we recommend:

- The Governing Board develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting the Academy's capitalization criteria. Further, addition and disposal forms should be completed by the Academy and approved by management when assets are acquired or disposed. This information should then be entered on a fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation. A copy of the invoice for the fixed asset should be maintained in a fixed asset additions file.
- The Academy develop and implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location, and independently verified by a member of management. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets not included on the listing should be added. Any significant deficiency should be investigated and documented accordingly.

**FINDING NUMBER 2001-10148-006**

**Material Weakness**

**Tax Exempt Status**

The Academy has not applied for tax exempt status with the Internal Revenue Service. Since the Academy has indicated they have not filed and do not intend to file for such status, the net income consequently is subject to taxation by the Internal Revenue Service. Further, the Academy has not filed any tax returns. The accompanying financial statements do not include amounts associated with an income tax liability or associated fines or penalties.

We recommend the Academy establish provisions for federal and local and accrued taxes. We also recommend the Academy immediately file the appropriate tax forms with the Internal Revenue Service, pay any outstanding taxes due and negotiate a settlement concerning any fees and/or penalties which may be assessed.

**ACADEMY OF BUSINESS AND TECHNOLOGY  
SCHEDULE OF FINDINGS  
FOR THE PERIOD ENDED JUNE 30, 2001**

**FINDING NUMBER 2001-10148-007**

**Reportable Condition**

**Monitoring of Federal Programs**

The management company employed by the Academy, Charter School Administrative Services, Inc. (CSAS) was not aware of the deadline for submitting final requests for fiscal year 2000 federal grant funds, nor could they provide information on how much of the fiscal year 2000 and 2001 grant allocation had been spent. The management of CSAS was not aware there were two different years' allocation to be accounted for and the expenditures were not accounted for separately. Monitoring of federal programs and their expenditures is an important and key control over the federal programs. Without proper, adequate monitoring of federal programs and their expenditures, there is the potential for lost funding, questioned costs, and over payments by the grantor agency.

We recommend the management of CSAS establish a system to maintain files for all the Academy's federal programs that will separately track:

- each grant year's allocation amount
- the cash request received and pending
- the expenditures made or accrued
- the deadlines for submitted the requests and the final report

We also recommend all grants be accounted for by fund and grant year so accurate financial information can be provided to the Academy.

**ACADEMY OF BUSINESS AND TECHNOLOGY  
SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2000-10148-001	ORC § 3319.39(A)(1) not obtaining background checks	Yes	
2000-10148-002	ORC § 3314.03(A)(10) teachers not properly certified.	No	Not corrected. Reissued as finding number 2001-10148-004
2000-10148-003	ORC § 3309.23(A)(1) not making retirement contributions to SERS	Yes	
2000-10148-004	Weak controls over fixed assets	No	Not corrected. Reissued as finding number 2001-10148-005
2000-10148-005	Not obtaining tax exemption status	No	Not corrected. Reissued as finding number 2001-10148-006





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**ACADEMY OF BUSINESS AND TECHNOLOGY**

**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  
AUGUST 20, 2002**