



**Auditor of State
Betty Montgomery**

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Auglaize County Special Needs School
Auglaize County
1045 Dearbaugh Street
Wapakoneta, Ohio 45895

To the Board of Directors:

We have audited the accompanying financial statements of the Auglaize County Special Needs School, Auglaize County, (ASN), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the ASN's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Auglaize County Special Needs School, Auglaize County, Ohio, as of June 30, 2005, and the changes in financial position and its cash flows, thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

Auglaize County Special Needs School
Auglaize County
Independent Accountants' Report
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In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2006, on our consideration of the ASN's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

March 20, 2006

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of Auglaize County Special Needs School's (ASN) financial performance provides an overall review of ASN's financial activities for the fiscal year ended June 30, 2005, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of ASN's financial performance.

HIGHLIGHTS

ASN, a conversion community school, began its first year of operation in fiscal year 2005 and had thirty-nine students participating in the program by the end of the year. ASN received start-up resources in the prior fiscal year; however, ASN actually began operating as a school in fiscal year 2005.

USING THE BASIC FINANCIAL STATEMENTS

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to ASN's cash basis of accounting.

ASN has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing receipts, disbursements, and the related assets and liabilities. Under ASN's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related receipts (such as accounts receivable) and certain liabilities and their related disbursements (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion with this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Table 1 provides a summary of ASN's net assets for fiscal year 2005 and fiscal year 2004:

**Table 1
Net Assets**

	2005	2004
Assets:		
Current Assets	<u>\$771,060</u>	<u>\$272</u>
Net Assets:		
Unrestricted	<u>\$771,060</u>	<u>\$272</u>

In the prior fiscal year, ASN's net assets consisted of start-up resources received from the Ohio Department of Education. As of June 30, 2005, ASN had not paid for a significant portion of purchased services from the Auglaize County Educational Service Center; therefore, the ASN had significant cash balances at fiscal year end.

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2005. Since ASN did not prepare financial statements according to this basis of accounting in the prior fiscal year, a comparative analysis of government-wide data has not been presented. In future years, when prior fiscal year information is available, a comparative analysis will be presented.

**Table 2
Change in Net Assets**

Operating Receipts	
Foundation	\$746,332
Non-Operating Receipts	
Interest	6,607
Operating Grants	78,000
Total Non-Operating Receipts	<u>84,607</u>
Total Receipts	<u>830,939</u>
Operating Disbursements	
Purchased Services	60,119
Other	32
Total Disbursements	<u>60,151</u>
Increase in Nets Assets	<u><u>\$770,788</u></u>

The increase in net assets is attributable to receipts from unexpended Foundation monies.

Budgeting

ASN is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Current Issues

The enrollment at ASN has been capped at thirty-nine students. The addition of a stronger autism component is being considered and the cap being changed accordingly. The funding has been adequate during this initial start-up process. Next fiscal year ASN will have to stand on its own because ASN will no longer receive start-up grants to offset costs.

Contacting ASN's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of ASN's finances and to reflect ASN's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Margaret J. Grimm, Treasurer, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**STATEMENT OF NET ASSETS
CASH BASIS
JUNE 30, 2005**

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	<u>\$771,060</u>
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Net Assets:

Unrestricted	<u>\$771,060</u>
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See accompanying notes to the basic financial statements.

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS
CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Operating Receipts:

Foundation Payments	\$746,332
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Operating Disbursements:

Purchased Services	60,119
Other	32
Total Operating Disbursements	<u>60,151</u>

Operating Income	686,181
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Non-Operating Receipts (Disbursements):

Interest Revenue	6,607
Operating Grants	78,000
Total Non-Operating Receipts (Disbursements)	<u>84,607</u>

Change in Net Assets	770,788
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Net Assets at Beginning of Year - Restated (Note 3)	272
Net Assets at End of Year	<u>\$771,060</u>

See accompanying notes to the basic financial statements.

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**STATEMENT OF CASHFLOWS
CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$746,332
Cash Payments for Services	(60,119)
Cash Payments for Other Expenses	(32)
Net Cash Provided by Operating Activities	<u>686,181</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants	78,000
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Cash Flows from Investing Activities:

Interest	<u>6,607</u>
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Net Increase in Cash and Cash Equivalents	770,788
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Cash and Cash Equivalents at Beginning of Year	272
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Cash and Cash Equivalents at End of Year	<u>\$771,060</u>
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See accompanying notes to the basic financial statements.

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**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL

Auglaize County Special Needs School (ASN), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. ASN's objective is to provide a special education program for kindergarten through twelfth grade for the multiple handicapped, emotionally disturbed, and autistic students. ASN, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. ASN may acquire facilities as needed and contract for any services necessary for the operation of the school.

ASN was approved for operation under a contract with the Auglaize County Educational Service Center for a five-year period commencing on the first day of the academic year 2003. ASN became operational in November 2004. Auglaize County Educational Service Center is responsible for evaluating the performance of ASN and has the authority to deny renewal of the contract at its expiration. Auglaize County Educational Service Center is also the fiscal agent of ASN with the Treasurer of Auglaize County Educational Service Center performing the role of Treasurer for ASN.

ASN operates under the direction of a seven-member Board of Directors made up of the Superintendents from the participating school districts. Auglaize County Educational Service Center does not make up a majority of the Board and cannot impose its will upon ASN; therefore, ASN is not a component unit of the Auglaize County Educational Service Center. The Board of Directors is responsible to help create, approve, and monitor ASN's annual budget, develop policies to guide the operation of ASN, and maintain a commitment to the vision, mission, and belief statements of ASN and the children it serves. During fiscal year 2005, ASN purchased services from the Auglaize County Educational Service Center for providing instructional and administrative services to ASN.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of ASN's accounting policies.

A. Basis of Presentation

ASN's basic financial statements consist of a statement of net assets; a statement of receipts, disbursements, and change in net assets; and a statement of cash flows.

ASN uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

ASN's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in ASN's financial records and reported on the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, except section 5705.391 which requires AEA to prepare a five year projection of operational revenues and expenditures. The contract between ASN and its Sponsor does prescribe an annual budget requirement.

D. Cash and Cash Equivalents

Cash held by ASN is reflected as "Equity in Pooled Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2005, ASN had no investments.

E. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by ASN or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

ASN first applies restricted resources when a disbursement is made for purposes for which both restricted and unrestricted net assets are available. ASN did not have any restricted net assets at fiscal year end.

F. Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly from the primary activity of ASN. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of ASN. All receipts and disbursements not meeting this definition are reported as non-operating.

3. RESTATEMENT OF NET ASSETS

For the fiscal year ended June 30, 2005, ASN has presented for the first time financial statements on the cash basis of accounting. While ASN had start-up resources available in the prior fiscal year, ASN began functioning as a school in November 2004. The restatement to beginning net assets is \$272.

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-02-03(B), requires ASN to prepare its annual financial report in accordance with generally accepted accounting principles. However, ASN prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The ASN can be fined and various other administrative remedies may be taken against ASN.

5. DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, ASN will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$671,060 of ASN's bank balance of \$771,060 was exposed to custodial credit risk because it was uninsured and uncollateralized. There are no statutory restrictions regarding the deposit and investment of funds by ASN.

6. RISK MANAGEMENT

ASN 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 2005, ASN had the following insurance coverage provided through Auglaize County Educational Service Center:

Coverage provided by Schools of Ohio Risk Sharing Authority is as follows:

General Liability	\$3,000,000
Automobile Liability	3,000,000

Coverage provided by Hartford Steam Boiler Inspection and Insurance Company is as follows:

Boiler	1,773,266
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7. FISCAL AGENT

The agreement with Auglaize County Educational Service Center states the Treasurer of Auglaize County Educational Service Center shall serve as the fiscal officer of ASN.

The Treasurer of Auglaize County Educational Service Center shall perform the following functions while serving as the Treasurer of ASN:

- A. Maintain the financial records of ASN in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of ASN;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. RELATED PARTY TRANSACTIONS

In fiscal year 2005, purchased services were obtained from Auglaize County Educational Service Center by ASN, in the amount of \$60,119. The purchased services were as follows:

Service	Amount
Salaries	\$39,198
Fringe Benefits	13,302
Purchased Services	4,882
Materials and Supplies	1,133
Capital Outlay	1,604
Total	<u><u>\$60,119</u></u>

9. CONTINGENCIES

A. Grants

ASN received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of ASN at June 30, 2005.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The conclusions of this review could result in State funding being adjusted. ASN does not have any adjustment to State funding for fiscal year 2005 as a result of this review.

C Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e. Charter) Schools 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 for oral arguments 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. Oral argument occurred November 29, 2005. The effect, if any, on ASN is not presently determinable.



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

Auglaize County Special Needs School
Auglaize County
1045 Dearbaugh Street
Wapakoneta, Ohio 45895

To the Board of Directors:

We have audited the financial statements of the Auglaize County Special Needs School, Auglaize County, (ASN), as of and for the year ended June 30, 2005, and have issued our report thereon dated March 20, 2006, wherein we noted ASN used a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ASN'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. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated March 20, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the ASN's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2005-001.

Auglaize County Special Needs School
Auglaize County
Independent Accountants' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required By *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is fluid and cursive, with "Betty" on top and "Montgomery" below it.

Betty Montgomery
Auditor of State

March 20, 2006

**AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

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

FINDING NUMBER 2005-001

Ohio Rev. Code Section 117.38 states, in part, that each public office, other than a state agency, shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03(B) and Community School Contract (10/15/02) Article III B. Financial Plan requires the Auglaize County Special Needs School (ASN) to prepare its annual financial report in accordance with generally accepted accounting principles.

The Auglaize County Special Needs School prepares their financial statements and notes following the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time. Pursuant to Ohio Rev. Code Section 117.38 the ASN may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The ASN should prepare their financial statements in accordance with generally accepted accounting principles in order to provide financial statement users information regarding the financial condition of the ASN.



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140
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800-282-0370
Facsimile 614-466-4490

AUGLAIZE COUNTY SPECIAL NEEDS SCHOOL

AUGLAIZE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 17, 2006**