



**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 43604-7120

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, 2005, 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, 2005, 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 October 4, 2006, 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 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.

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

**Betty Montgomery**  
Auditor of State

October 4, 2006

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

The discussion and analysis of the Polly Fox Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. 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.

**Financial Highlights**

- Net assets totaled (\$87,447).
- Total assets were \$125,753. Cash totaled \$17,137 and intergovernmental receivables amounted to \$102,883.
- Liabilities totaled \$213,200. Amounts payable to Toledo Public Schools totaled \$107,793 while intergovernmental payables amounted to \$77,882.

**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.

**Reporting the Academy as a Whole**

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

The Statement of Net Assets and the Statement of Activities report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and community services. Unrestricted state aid and state and federal grants finance most of these activities.

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

(Table 1)  
Net Assets

	2005	2004 (Restated)
<b>Assets</b>		
Current Assets	\$ 125,753	\$ 80,657
<i>Total Assets</i>	<u>125,753</u>	<u>80,657</u>
<b>Liabilities</b>		
Current Liabilities	213,200	167,527
<i>Total Liabilities</i>	<u>213,200</u>	<u>167,527</u>
<b>Net Assets</b>		
Unrestricted	(87,447)	(86,870)
<i>Total Net Assets</i>	<u>\$ (87,447)</u>	<u>\$ (86,870)</u>

Assets totaled \$125,753. Cash and cash equivalents amounted to \$17,137. This represents an increase of \$11,869 or 225.3% over the prior fiscal year, and was primarily due to the significant increase in enrollment which increased per pupil funding from the state. Intergovernmental Receivables amounted to \$102,883, primarily consisting of an overpayment to Toledo Public Schools for the July/August 2004 invoice. Prepaid assets were \$1,928.

Liabilities totaled \$213,200. This represents an increase of \$45,673 or 27.26% over the prior fiscal year. This increase is primarily due to the timing of invoicing from Toledo Public Schools. The most significant liabilities were payable to Toledo Public Schools in the amount of \$107,793 and to the State of Ohio in the amount of \$77,882.

Table 2 shows the changes in net assets for fiscal year 2005 as compared to fiscal year 2004.

(Table 2)  
Change in Net Assets

	2005	2004 (Restated)
<b>Operating Revenues:</b>		
Foundation Payments	\$ 733,088	\$ 442,570
Disadvantaged Pupil Impact Aid	7,127	23,023
Special Education	3,062	
Extracurricular Activities	702	
Other	250	

(Continued)



**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

(Table 2) (Continued)  
Change in Net Assets

	2005	2004 (Restated)
<b>Non-Operating Revenues:</b>		
State Grants	8,925	53,000
Contributions and Donations	4,690	
Interest	3,993	1,096
Other		1,461
<i>Total Revenues</i>	761,837	521,150
<b>Operating Expenses</b>		
Salaries	10,020	10,708
Fringe Benefits	1,953	1,655
Purchased Services	703,488	593,179
Materials and Supplies	33,818	880
Other Expenses	13,135	1,598
<i>Total Expenses</i>	762,414	608,020
<i>Change in Net Assets</i>	\$ (577)	\$ (86,870)

During the 2004-2005 school year, there were approximately 139 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2005 amounted to \$5,169 per student.

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

Revenues totaled \$761,837, which represents an increase of \$240,687 or 46.18% over the prior fiscal year. This was primarily due to the increase in enrollment and subsequent state funding.

Operating expenses totaled \$762,414 which represents an increase of \$154,394 or 25.39% over the prior fiscal year. This increase was due to additional staffing and services based on enrollment. Also, sponsorship and fiscal management fees increased based on state funding per contract with TPS. Most expenses are purchased services. Per contract, the Academy remits most of its revenue to TPS, which incurs costs on behalf of the Academy to provide instruction and other costs. See Note 11 for more details.

**Accumulated Deficit and Operating Loss**

The Net Assets deficit of \$87,447 was an increase of \$577 from 2004. The Academy applied for and received a Federal startup grant totaling \$300,000 in September 2005.

**Capital Assets**

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

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**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 in its first year of operations 2003-2004. 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.

**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 Rose Butler, Treasurer at Polly Fox Academy, 2238 Jefferson Avenue, Toledo, Ohio 43604.

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**Assets**

Current Assets:

Cash and Cash Equivalents	\$ 17,137
Accounts Receivables	3,805
Intergovernmental Receivables	102,883
Prepaid Items	<u>1,928</u>
<i>Total Current Assets</i>	<u>125,753</u>

**Liabilities**

Current Liabilities:

Accounts Payable	26,807
Accrued Wages and Benefits	718
Amounts Payable to Toledo Public Schools	107,793
Intergovernmental Payable	<u>77,882</u>
<i>Total Current Liabilities</i>	<u>213,200</u>

**Net Assets**

Unrestricted	<u>(87,447)</u>
<i>Total Net Assets</i>	<u><u>\$ (87,447)</u></u>

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, 2005

<b>Operating Revenues</b>	
Foundation Payments	\$ 733,088
Disadvantaged Pupil Impact Aid	7,127
Special Education	3,062
Extracurricular Activities	702
Other Operating Revenues	<u>250</u>
<i>Total Operating Revenues</i>	<u>744,229</u>
<b>Operating Expenses</b>	
Salaries	10,020
Fringe Benefits	1,953
Purchased Services	703,488
Materials and Supplies	33,818
Other	<u>13,135</u>
<i>Total Operating Expenses</i>	<u>762,414</u>
<i>Operating Loss</i>	<u>(18,185)</u>
<b>Non-Operating Revenues</b>	
State Grants	8,925
Contributions and Donations	4,690
Interest	<u>3,993</u>
<i>Total Non-Operating Revenues</i>	<u>17,608</u>
<i>Change in Net Assets</i>	(577)
<i>Net Assets Beginning of Year, Restated</i>	<u>(86,870)</u>
<i>Net Assets End of Year</i>	<u><u>\$ (87,447)</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, 2005

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

<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation Payments	\$ 880,687
Cash Received from Extracurricular Activities	702
Cash Received from Other Operating Sources	250
Cash Payments to Suppliers for Goods and Services	(36,483)
Cash Payments to Employees for Services	(11,000)
Cash Payments for Employee Benefits	(5,104)
Cash Payments for Purchased Services	(714,854)
Cash Payments to Management Company	(106,802)
Cash Payments to Others	<u>(13,135)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(5,739)</u>
 <u>Cash Flows from Noncapital Financing Activities:</u>	
Contributions and Donations	4,690
Operating Grants - State	<u>8,925</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>13,615</u>
 <u>Cash Flows from Investing Activities:</u>	
Interest	<u>3,993</u>
<i>Net Cash Provided by Investing Activities</i>	<u>3,993</u>
<i>Net Increase in Cash and Cash Equivalents</i>	11,869
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>5,268</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 17,137</u></u>

(Continued)

**POLLY FOX ACADEMY  
LUCAS COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)

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

Operating Loss \$ (18,185)

**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities**

Changes in Assets and Liabilities:

(Increase) in Accounts Receivable	(3,805)
(Increase) in Intergovernmental Receivable	(43,355)
Decrease in Prepaids	13,933
Increase in Accounts Payable	10,039
(Decrease) in Accrued Wages and Benefits	(970)
(Decrease) in Amounts Payable to Toledo Public Schools	(41,278)
Increase in Intergovernmental Payable	77,882

*Total Adjustments* 12,446

*Net Cash Used for Operating Activities* \$ (5,739)

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, 2005**

**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 eight 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 13).

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 9 non-certified and 7 certificated full time teaching personnel who provide services to 125 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, 2005  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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 submit it 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 2005, 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, 2005.



**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**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.

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 various programs through the Ohio Department of Education. These include the One Net, Ohio Schoolnet, and EMIS grants. Revenue received from these programs 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, 2005, 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.

**J. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. There were no restricted net assets.

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**NOTE 3 – CORRECTION OF AN ERROR AND RESTATEMENT OF NET ASSETS**

In fiscal year 2005, the Academy had determined that Accounts Payable was overstated due to a renegotiated building lease with Toledo City School District. The effect of this restatement on the Net Assets of the Governmental Activities as of July 1, 2004, is as follows:

	Total Governmental Activities
Governmental Activities Net Assets at June 30, 2004	\$ (131,802)
Accounts Payable	44,932
Restated Governmental Activities Net Assets at June 30, 2004	<u>\$ (86,870)</u>

**NOTE 4 – DEPOSITS AND INVESTMENTS**

At fiscal year end June 30, 2005, the Academy's bank balance was \$49,310. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, none of the bank balance was exposed to custodial risk as discussed below and all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy's investments total \$2,169 (fair value), which is maintained in a STAR Ohio account. At June 30, 2005, STAR Ohio received the Standard & Poor's highest credit rating of AAA.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2005, consisted of accounts and intergovernmental receivable. All receivables are considered collectible in full and will be received within one year. At June 30, 2005, the Academy had accounts receivable of \$3,805, due from Brigadoon Academy and intergovernmental receivables of \$102,883, representing an overpayment to Toledo Public Schools and the State Employees Retirement System during the year.

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**NOTE 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. During fiscal year 2005, the Academy obtained insurance as of August 30, 2004, thru broker Hylant Insurance. Coverages are as follows:

**A. Property and Liability (Continued)**

General Liability:	
Per occurrence	\$ 1,000,000
Annual Aggregate	3,000,000
Educators Professional Liability:	
Per occurrence	1,000,000
Aggregate	1,000,000
Business Personal Property (\$1,000 deductible)	200,000
Excess Liability:	
Limits of Liability	4,000,000

There have been no claims filed.

**B. Workers' Compensation**

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

**NOTE 7 - 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 toll free 1-800-878-5853. It is also posted on the SERS website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**NOTE 7 - DEFINED BENEFIT PENSION PLANS – (Continued)**

For the fiscal year ended June 30, 2005, 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 2005, 10.57 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 years ended June 30, 2005 and 2004, were \$1,149 and \$1,439, respectively; 100 percent has been contributed for fiscal years 2005 and 2004. \$3,161 represents the overpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental receivable.

**NOTE 8 - 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 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. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$373.

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, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,000 participants currently receiving health care benefits.

**NOTE 9 - 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.

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**NOTE 10 – RELATED PARTY TRANSACTIONS**

A board member, Earl Apgar, was hired by TPS to be the principal of the Toledo Education Center (collectively – Brigadoon, Phoenix, and Polly Fox Community Schools). Mr. Apgar resigned from the Academy's Board in January 2005. Total payments to Mr. Apgar for fiscal year 2005 included \$625 for Board member services and \$187 in reimbursements.

The following board members were the same for Brigadoon, Phoenix, and Polly Fox Academies that are sponsored by Toledo Public Schools: Joan Durgin, Adrienne Noel, Joan Kuchcinski, and Joan Reasonover. Each of the following board members received pay from the Academy: Ms. Durgin \$1,250; Ms. Noel \$1,250; Ms. Kuchcinski \$1,250; and Ms. Reasonover \$1,250. In addition, Joan Durgin received reimbursements totaling \$415.

The Academy's Fiscal Officer, James Larson-Shidler, received pay from the Academy of \$5,000 and he is also the Assistant to the Treasurer of TPS, the Sponsor/Management Company of the Academy (see note 13).

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

**NOTE 11 – MANAGEMENT AGREEMENT**

The Academy entered into a contract, effective July 1, 2003,, through June 30, 2004, renewable each year up to five years, with TPS for educational and financial management services. The Academy renewed the prior contract for the 2004-2005 school year. Total expenses to TPS were \$908,227 for the fiscal year ended June 30, 2005. In exchange for its services, TPS received \$801,476 to manage the Academy in addition to a management fee equal to 10 percent of revenue (\$82,116) and a sponsorship fee equal to 3 percent of revenue (\$24,635). In addition, the Academy pays TPS an annual fee in the subsequent year totaling 100 percent of its 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 projected 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;

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**NOTE 11 – MANAGEMENT AGREEMENT – (Continued)**

- 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 function necessary or expedient for the administration of the Academy.

**NOTE 12 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from 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, 2005.

**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 to the State, upon which state foundation funding is calculated. ODE has conducted a review of the Academy's 2005 student enrollment data and FTE calculations. For fiscal year 2005, the results of this review resulted in a reduction in funding of \$77,882. This amount is reflected as an Intergovernmental Payable.

**C. Litigation**

A 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. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Academy is not presently determinable.

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**NOTE 13 – FISCAL**

The sponsorship agreement states the Assistant Treasurer or Treasurer of the TPS 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 2005 totaled \$5,000, which included \$208 from fiscal year 2004. An accrual of \$208 was recorded for the year ended June 30, 2005.

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;
- 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 14 – PURCHASED SERVICES**

For the period ended June 30, 2005, purchased services expenses were payments for services rendered, as follows:

Professional and Technical Services	\$ 608,702
Property Services	80,698
Travel Mileage/Meeting Expense	807
Communications	4,360
Contracted Craft or Trade Services	7,701
Tuition	120
Pupil Transportation Services	2,364
Other Purchased Services	(1,264)
Total Purchase Services and Fees	<u>\$ 703,488</u>

**POLLY FOX ACADEMY  
LUCAS COUNTY**

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

**NOTE 15 – OPERATING LEASES – LESSEE DISCLOSURE**

The Academy entered into a lease for the period August 28, 2003, to August 28, 2004, with the Sponsor to lease space to house the Academy. In August 2004, the Academy renewed the lease for an additional one-year term. In fiscal year 2005, expense under the lease agreement for the Academy totaled \$61,343.

The Academy renegotiated its lease agreement retroactive to its inception. The renegotiated agreement applies to payments that were made in 2003-04 and 2004-05. In 2003-04, a net lease liability of \$29,071 was recorded, reflecting a prepayment of \$15,861 and a liability of \$44,932 for underpayment per original payment terms. The liability of \$44,932 was relieved in the renegotiated agreement. In August 2005, the Academy renewed the lease for an additional one-year term. As of June 30, 2005, the Academy owed \$12,197 on the current year lease agreement which appears as a liability on the financial statements.

**NOTE 16 – SUBSEQUENT EVENTS**

On December 12, 2005, the Academy approved various amendments to the sponsorship and management contracts with TPS. One amendment changed the fiscal officer designation to allow the Academy to hire a fiscal officer directly. The Academy subsequently accepted the resignation of Jim Larson-Shidler as Treasurer, effective December 30, 2005, and hired Rose Butler as the replacement. A second amendment increased the cash carryover provision from \$100,000 to \$500,000. This cash carryover provision amount is the amount above which, any cash carryover balance, as of June 30, is remitted to TPS.





**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 43604-7120

To the Governing Board:

We have audited the basic financial statements of the Polly Fox Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2005, and have issued our report thereon dated October 4, 2006. 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 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 2005-002 through 2005-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Academy's management dated October 4, 2006, 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001.

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



**Betty Montgomery**  
Auditor of State

October 4, 2006

**POLLY FOX ACADEMY  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	2005-001
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**Finding for Recovery – Repaid during Audit**

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

Polly Fox Academy was billed for salaries and fringe benefits by TPS, who was engaged as their management company during fiscal year 2005. 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 \$6,758.58 and in favor of the Phoenix Academy.

On September 20, 2006, Polly Fox Academy issued a check payable to Phoenix Academy for \$6,758.58.

**Officials' Response**

Polly Fox Academy repaid the amount due to Phoenix Academy.

<b>Finding Number</b>	2005-002
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**Reportable Condition**

Developing and Implementing an Effective Monitoring Control System

The Academy has not established a monitoring system to oversee the operational and fiscal matters of the school.

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.

<b>Finding Number</b>	2005-002 (Continued)
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Developing and Implementing an Effective Monitoring Control System (Continued)

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/expenses with independently accumulated information (budgets, past performance, etc.), as submitted by the Fiscal Officer;
- Monitoring original purchase orders and comparing encumbered amounts to actual invoices and, if needed, additional purchase orders should be issued with the appropriate approvals; and
- Ensuring an adequate segregation of duties exist.

**Officials' Response**

An effective monitoring control system will be established. Bank reconciliations will be provided to the Board every month for their review. Revenues and expenditures will also be reviewed monthly by the Board.

<b>Finding Number</b>	2005-003
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**Reportable Condition**

Invoices and Expenses

The Academy's Contract for Community School, Attachment 7, requires the Academy to pay the sponsor, Toledo Public Schools for services and reimbursement of necessary costs incurred to operate the Academy, on a quarterly/monthly basis. We identified the following weaknesses in paying fees and reimbursements to Toledo Public Schools:

- ✓ Invoices were made out to the Toledo Education Center, including billings for two other separate and distinct community schools housed in the same building, rather than to Polly Fox Academy.
- ✓ Invoices were not provided consistently and/or timely (quarterly/monthly). The Academy received only three invoices during FY 05, and there was a significant time lag between when services were provided and the Academy being invoiced for those services. Section 2(B) of the "Contract for Community School and Management Agreement" requires quarterly/monthly invoices.
- ✓ Voucher packets for payment to Toledo Public Schools lacked adequate, complete supporting documentation. Specifically, some voucher packets lacked initials indicating the accounting department recalculated invoices; there were no spreadsheets (or other supporting documentation) identifying various invoice allocations by school; support for the allocation of fringe benefits; support for various reconciling items; and documentation supporting sponsorship fees, management fees, and fiscal fees.

This condition could result in billing allocation errors, vendor over/under payments, and/or misappropriation of Academy assets occurring and not being detected by Academy officials when performing their assigned functions.

We recommend the Academy attempt to implement sponsor/management company payment procedures wherein (1) invoices are individual and unique, reflecting charges for services and reimbursements of costs that are obligations of the Academy; (2) invoices contain all necessary supporting documentation to facilitate adequate, accurate review and approval by the Academy's Board; and (3) invoices are presented for payment in a consistent, timely manner (monthly/quarterly).

**Officials' Response**

A meeting was held with the Sponsor, Toledo Public Schools, to discuss this issue. Polly Fox Academy requested its sponsor provide quarterly lease invoices and separate invoices for anything billed by sponsor, with no billings addressed to the TEC (Toledo Education Center), but strictly to Polly Fox Academy.

**POLLY FOX ACADEMY  
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Developing and Implementing an Effective Monitoring Control System	No	Partially Corrected – Repeated as finding number 2005-002
2004-002	Lacking Expenditure Controls	No	Partially Corrected – Revised and repeated as finding number 2005-003
2004-003	Not following Consultant's Contract	Yes	Finding No Longer Valid
2004-004	No Legal Counsel	Yes	
2004-005	Finding for Recovery – Expenses paid by another school	Yes	
2004-006	Bylaws Article Three Section 5 – No compensation for members of the Board	Yes	
2004-007	Bylaws Article Five Section 1 – Election of Officers	Yes	
2004-008	Ohio Revised Code § 3314.03(A)(8) – Filing of annual report with AOS	Yes	
2004-009	Compliance with TPS contracts	No	Partially Corrected – Repeated as finding number 2005-003
2004-010	Inadequate Insurance Coverage	Yes	



**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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 9, 2006**