



Dave Yost • Auditor of State

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Auglaize County Educational Academy
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, Ohio 45895

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the Auglaize County Educational Academy, Auglaize County, Ohio (the AEA), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the AEA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the AEA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the AEA's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of the Auglaize County Educational Academy, Auglaize County, Ohio, as of June 30, 2016 and 2015, and the changes in cash financial position thereof for the years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the AEA to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2017 on our consideration of the AEA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AEA's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 7, 2017

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED**

The discussion and analysis of the Auglaize County Educational Academy's (the "AEA") financial performance provides an overall review of the AEA's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the AEA's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the AEA's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, net position was \$143,816 at June 30, 2016.
- The AEA had operating receipts of \$466,981 and operating disbursements of \$626,072 for fiscal year 2016.
- The AEA also received \$84,361 in non-operating receipts during fiscal year 2016.
- Total change in net position for fiscal year 2016 was a decrease of \$74,730, from a beginning balance of \$218,546 to a balance of \$143,816.

Using these Cash Basis Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the AEA's financial activities. The statement of net position – cash basis and statement of receipts, disbursements and change in net position – cash basis provide information about the activities of the AEA.

Reporting the Academy's Financial Activities

Statement of Net Position and the Statement of Receipts, Disbursements and Change in Net Position - Cash Basis

These documents look at all financial transactions and ask the question, "How did the AEA do financially during 2016?" The statement of net position – cash basis and the statement of receipts, disbursements and change in net position – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and expenditures if the cash is actually received or paid.

These two statements report the AEA's net position and change in net position on a cash basis. This change in net position is important because it tells the reader that, for the AEA as a whole, the cash basis financial position of the AEA has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

The table below provides a summary of the AEA net position for fiscal years 2016 and 2015.
Net Position

	2016	2015
<u>Assets</u>		
Current assets	\$ 143,816	\$ 218,546
Total assets	143,816	218,546
<u>Net Position</u>		
Restricted	410	624
Unrestricted	143,406	217,922
Total net position	\$ 143,816	\$ 218,546

Over time, net cash position can serve as a useful indicator of a government's financial position. Total net position of the AEA decreased \$74,730, which represents a 34.19% decrease from net position at June 30, 2015. The unrestricted net cash balance of \$143,406 may be used for the AEA's ongoing operations.

The table below shows the changes in net position for fiscal year 2016 and 2015.

Change in Net Position

	2016	2015
<u>Operating Receipts</u>		
Foundation payments	\$ 347,241	\$ 521,827
Sales/charges for services	116,923	76,115
Other	2,817	2,899
Total operating receipts	466,981	600,841
<u>Operating Disbursements</u>		
Purchased services	610,162	699,973
Materials and supplies	10,193	36,938
Other	5,717	339
Total operating disbursements	626,072	737,250
<u>Non-operating receipts</u>		
Federal grants	84,098	50,497
Interest income	263	321
Total non-operating receipts	84,361	50,818
Change in net position	(74,730)	(85,591)
Net position at beginning of year	218,546	304,137
Net position at end of year	\$ 143,816	\$ 218,546

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

The decrease in expenditures was primarily in the area of purchased services. The AEA received less funding from foundation revenue during fiscal year 2016 due to a decline in enrollment.

Capital Assets and Debt Administration

Capital Assets

The AEA does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements.

Debt Administration

The AEA does not have any debt obligations outstanding as of June 30, 2016.

Current Financial Related Activities

Effective August 1, 2013, the AEA's sponsor changed to the Auglaize County Educational Service Center. The AEA is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the AEA's students, the AEA will apply resources to best meet the needs of its students. It is the intent of the AEA to apply for other State and Federal funds that are made available to finance its operations.

Contacting the AEA's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the AEA's finances and to show the AEA's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Kristy Weaks, Treasurer, Auglaize County Educational Service Center, 1045 Dearbaugh Ave, Suite 2, Wapakoneta, OH 45895, or email at kweaks@auglaizeesc.org.

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**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016**

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 143,816
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Net Position:

Restricted for:

Restricted for Federal Programs	\$ 410
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Unrestricted	143,406
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Total Net Position	<u>\$ 143,816</u>
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See Accompanying Notes to the Basic Financial Statements

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Operating Receipts:	
Charges for Services	\$ 116,923
Foundation	347,241
Miscellaneous Receipts	2,817
Total Operating Receipts	<u>466,981</u>
 Operating Disbursements:	
Purchased Services	610,162
Materials and Supplies	10,193
Other Disbursements	5,717
Total Operating Disbursements	<u>626,072</u>
 Operating Loss	 <u>(159,091)</u>
 Non-Operating Receipts:	
Interest	263
Grants	84,098
Total Non-Operating Receipts	<u>84,361</u>
 Change in Net Position	 (74,730)
 Net Position at Beginning of Year	 218,546
Net Position at End of Year	<u>\$ 143,816</u>

See Accompanying Notes to the Basic Financial Statements.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE ENTITY

Auglaize County Educational Academy (AEA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. AEA's objective is to provide education opportunities through a virtual curriculum for students in kindergarten through twelfth grade. AEA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. AEA may acquire facilities as needed and contract for any services necessary for the operation of the school.

AEA 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 2003 academic year. AEA became operational in November 2004. The contract was subsequently renewed for an additional five-year period commencing on July 1, 2008, and expired on June 30, 2013. The contract has again been renewed for a five-year period commencing on July 1, 2013. Auglaize County Educational Service Center is responsible for evaluating the performance of AEA and has the authority to deny renewal of the contract at its expiration. Auglaize County Educational Service Center is also the fiscal agent of AEA with the Treasurer of Auglaize County Educational Service Center performing the role of Treasurer for AEA.

AEA operates under the direction of a six-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 on AEA; therefore, AEA is not a component unit of the Auglaize County Educational Service Center. The Board of Directors is responsible to help create, approve, and monitor AEA's annual budget, develop policies to guide the operation of AEA, and maintain a commitment to the vision, mission, and belief statements of AEA and the children it serves.

During fiscal year 2016, AEA purchased services from the Auglaize County Educational Service Center to provide instructional, professional development, administrative, and curriculum development services for AEA.

NOTE 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. Following are the more significant of the AEA's accounting policies.

A. Basis of Presentation

AEA's basic financial statements consist of a statement of net position – cash basis and a statement of receipts, disbursements, and change in net position – cash basis.

AEA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net position, and financial position. 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 EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

B. Basis of Accounting

AEA's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in AEA'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 receipts (such as accounts receivable and receipt for billed or provided services not yet collected) and certain liabilities and their related expenditures (such as accounts payable and expenditures for goods or services received but not yet paid, and accrued expenditures 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, unless specifically provided by AEA's contract with its Sponsor. The contract between AEA and its Sponsor does prescribe an annual budget requirement.

D. Cash and Cash Equivalents

Cash and cash equivalents held by AEA are reflected as "Equity in Pooled Cash and Cash Equivalents" on the statement of net position – cash basis. 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 2016, AEA's investments consisted of nonnegotiable certificates of deposit, which are reported at cost.

E. Net Position

Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. AEA first applies restricted resources when a disbursement is made for purposes for which both restricted and unrestricted net position is available.

F. Operating Receipts and Disbursements

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

NOTE 3 - DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, AEA will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, all of the AEA's bank balance of \$147,540 was covered by the FDIC. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject AEA to a successful claim by the FDIC.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

NOTE 4 - RISK MANAGEMENT

AEA 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 2016, AEA obtained insurance coverage through the Auglaize County Educational Service Center's insurance policy. Coverage provided by the Schools of Ohio Risk Sharing Authority to the Auglaize County Educational Service Center was as follows:

General Liability:	
Occurrence	\$ 15,000,000
Aggregate	17,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

NOTE 5 - FISCAL AGENT

The agreement with the Auglaize County Educational Service Center states the Treasurer of the Auglaize County Educational Service Center shall serve as the treasurer of AEA. The Treasurer of the Auglaize County Educational Service Center shall perform the following functions while serving as the Treasurer of AEA:

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

NOTE 6 - RELATED PARTY TRANSACTIONS

In fiscal year 2016, services and supplies were obtained from the Auglaize County Educational Service Center by AEA, in the amount of \$553,496. The amount of these services and supplies was as follows:

	<u>Amount</u>
Salaries	\$ 432,145
Fringe Benefits	92,884
Purchased Services	20,080
Supplies and Materials	8,262
Other	<u>125</u>
Total	<u>\$ 553,496</u>

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

NOTE 7 - CONTINGIENCES

A. Grants

AEA 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 AEA at June 30, 2016.

B. Litigation

There are currently no matters in litigation with the AEA as a defendant.

C. 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.

ODE has identified several community schools and/or STEM schools that made critical data errors between the June payment and the Final #1 payment. As a result, ODE will be running a Final #2 foundation report for community and STEM schools for fiscal year 2016. As of the date of this report, a final list of schools impacted and amounts are not yet available, but ODE believes this will result in either a receivable or payable to the schools affected.

NOTE 8 - COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the AEA to prepare its annual financial report in accordance with generally accepted accounting principles. However, the AEA 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 position / fund balances, and disclosures that, while material, cannot be determined at this time. The AEA can be fined and various other administrative remedies may be taken against the AEA.

NOTE 9 - PURCHASED SERVICES

For fiscal year ended June 30, 2016, expenses for purchased services were as follows:

Professional and technical services	\$ 599,309
Administrative/meeting expenses	5,030
Tuition	2,036
Other purchases	<u>3,787</u>
Total	<u>\$ 610,162</u>

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

The discussion and analysis of the Auglaize County Educational Academy's (the "AEA") financial performance provides an overall review of the AEA's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the AEA's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the AEA's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, net position was \$218,546 at June 30, 2015.
- The AEA had operating receipts of \$600,841 and operating disbursements of \$737,250 for fiscal year 2015.
- The AEA also received \$50,818 in non-operating receipts during fiscal year 2015.
- Total change in net position for fiscal year 2015 was a decrease of \$85,591, from a beginning balance of \$304,137 to a balance of \$218,546.

Using these Cash Basis Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the AEA's financial activities. The statement of net position – cash basis and statement of receipts, disbursements and change in net position – cash basis provide information about the activities of the AEA.

Reporting the Academy's Financial Activities

Statement of Net Position and the Statement of Receipts, Disbursements and Change in Net Position - Cash Basis

These documents look at all financial transactions and ask the question, "How did the AEA do financially during 2015?" The statement of net position – cash basis and the statement of receipts, disbursements and change in net position – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and expenditures if the cash is actually received or paid.

These two statements report the AEA's net position and change in net position on a cash basis. This change in net position is important because it tells the reader that, for the AEA as a whole, the cash basis financial position of the AEA has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 17 and 18 of this report.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

The table below provides a summary of the AEA net position for fiscal years 2015 and 2014.

	Net Position	
	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Current assets	\$ 218,546	\$ 304,137
Total assets	<u>218,546</u>	<u>304,137</u>
<u>Net Position</u>		
Restricted	624	
Unrestricted	<u>217,922</u>	<u>304,137</u>
Total net position	<u>\$ 218,546</u>	<u>\$ 304,137</u>

Over time, net cash position can serve as a useful indicator of a government's financial position. Total net position of the AEA decreased \$85,591, which represents a 28.14% decrease from net position at June 30, 2014. The unrestricted net cash balance of \$217,922 may be used for the AEA's ongoing operations.

The table below shows the changes in net position for fiscal year 2015 and 2014.

	Change in Net Position	
	<u>2015</u>	<u>2014</u>
<u>Operating Receipts</u>		
Foundation payments	\$ 521,827	\$ 602,109
Sales/charges for services	76,115	59,528
Other	<u>2,899</u>	<u>605</u>
Total operating receipts	<u>600,841</u>	<u>662,242</u>
<u>Operating Disbursements</u>		
Purchased services	699,973	852,485
Materials and supplies	36,938	25,750
Other	<u>339</u>	<u>11,093</u>
Total operating disbursements	<u>737,250</u>	<u>889,328</u>
<u>Non-operating receipts</u>		
Federal grants	50,497	18,156
Interest income	<u>321</u>	<u>390</u>
Total non-operating receipts	<u>50,818</u>	<u>18,546</u>
Change in net position	(85,591)	(208,540)
Net position at beginning of year	<u>304,137</u>	<u>512,677</u>
Net position at end of year	<u>\$ 218,546</u>	<u>\$ 304,137</u>

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

The decrease in expenditures was primarily in the area of purchased services. The AEA received less funding from foundation revenue during fiscal year 2015.

Capital Assets and Debt Administration

Capital Assets

The AEA does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements.

Debt Administration

The AEA does not have any debt obligations outstanding as of June 30, 2015.

Current Financial Related Activities

Effective August 1, 2013, the AEA's sponsor changed to the Auglaize County Educational Service Center. The AEA is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the AEA's students, the AEA will apply resources to best meet the needs of its students. It is the intent of the AEA to apply for other State and Federal funds that are made available to finance its operations.

Contacting the AEA's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the AEA's finances and to show the AEA's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Kristy Weaks, Treasurer, Auglaize County Educational Service Center, 1045 Dearbaugh Ave, Suite 2, Wapakoneta, OH 45895, or email at kweaks@auglaizeesc.org.

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**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2015**

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 218,546
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Net Position:

Restricted	\$ 624
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Unrestricted	217,922
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Total Net Position	<u>\$ 218,546</u>
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See Accompanying Notes to the Basic Financial Statements.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Operating Receipts:	
Charges for Services	\$ 76,115
Foundation	521,827
Miscellaneous Receipts	2,899
Total Operating Receipts	<u>600,841</u>
 Operating Disbursements:	
Purchased Services	699,973
Materials and Supplies	36,938
Other Disbursements	339
Total Operating Disbursements	<u>737,250</u>
 Operating Loss	 <u>(136,409)</u>
 Non-Operating Receipts:	
Interest	321
Grants	50,497
Total Non-Operating Receipts	<u>50,818</u>
 Change in Net Position	 (85,591)
 Net Position at Beginning of Year	 304,137
Net Position at End of Year	<u>\$ 218,546</u>

See Accompanying Notes to the Basic Financial Statements.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 - DESCRIPTION OF THE ENTITY

Auglaize County Educational Academy (AEA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. AEA's objective is to provide education opportunities through a virtual curriculum for students in kindergarten through twelfth grade. AEA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. AEA may acquire facilities as needed and contract for any services necessary for the operation of the school.

AEA 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 2003 academic year. AEA became operational in November 2004. The contract was subsequently renewed for an additional five-year period commencing on July 1, 2008, and expired on June 30, 2013. The contract has again been renewed for a five-year period commencing on July 1, 2013. Auglaize County Educational Service Center is responsible for evaluating the performance of AEA and has the authority to deny renewal of the contract at its expiration. Auglaize County Educational Service Center is also the fiscal agent of AEA with the Treasurer of Auglaize County Educational Service Center performing the role of Treasurer for AEA.

AEA operates under the direction of a six-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 on AEA; therefore, AEA is not a component unit of the Auglaize County Educational Service Center. The Board of Directors is responsible to help create, approve, and monitor AEA's annual budget, develop policies to guide the operation of AEA, and maintain a commitment to the vision, mission, and belief statements of AEA and the children it serves.

During fiscal year 2015, AEA purchased services from the Auglaize County Educational Service Center to provide instructional, professional development, administrative, and curriculum development services for AEA.

NOTE 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. Following are the more significant of the AEA's accounting policies.

A. Basis of Presentation

AEA's basic financial statements consist of a statement of net position – cash basis and a statement of receipts, disbursements, and change in net position – cash basis.

AEA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net position, and financial position. 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 EDUCATION ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

B. Basis of Accounting

AEA's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in AEA'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 receipts (such as accounts receivable and receipt for billed or provided services not yet collected) and certain liabilities and their related expenditures (such as accounts payable and expenditures for goods or services received but not yet paid, and accrued expenditures 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, unless specifically provided by AEA's contract with its Sponsor. The contract between AEA and its Sponsor does prescribe an annual budget requirement.

D. Cash and Cash Equivalents

Cash and cash equivalents held by AEA are reflected as "Equity in Pooled Cash and Cash Equivalents" on the statement of net position – cash basis. 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 2015, AEA's investments consisted of nonnegotiable certificates of deposit, which are reported at cost.

E. Net Position

Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. AEA first applies restricted resources when a disbursement is made for purposes for which both restricted and unrestricted net position is available.

F. Operating Receipts and Disbursements

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

NOTE 3 - DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, AEA will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$21,344 of the AEA's bank balance of \$382,399 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject AEA to a successful claim by the FDIC.

**AUGLAIZE COUNTY EDUCATION ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 4 - RISK MANAGEMENT

AEA 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 2015, AEA obtained insurance coverage through the Auglaize County Educational Service Center's insurance policy. Coverage provided by the Schools of Ohio Risk Sharing Authority to the Auglaize County Educational Service Center was as follows:

General Liability:	
Occurrence	\$ 15,000,000
Aggregate	17,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

NOTE 5 - FISCAL AGENT

The agreement with the Auglaize County Educational Service Center states the Treasurer of the Auglaize County Educational Service Center shall serve as the treasurer of AEA. The Treasurer of the Auglaize County Educational Service Center shall perform the following functions while serving as the Treasurer of AEA:

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

NOTE 6 - RELATED PARTY TRANSACTIONS

In fiscal year 2015, services and supplies were obtained from the Auglaize County Educational Service Center by AEA, in the amount of \$626,977. The amount of these services and supplies was as follows:

	<u>Amount</u>
Salaries	\$ 442,051
Fringe Benefits	147,159
Purchased Services	29,097
Supplies and Materials	8,262
Other	<u>408</u>
Total	<u>\$ 626,977</u>

NOTE 7 - CONTINGIENCES

A. Grants

AEA 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 AEA at June 30, 2015.

**AUGLAIZE COUNTY EDUCATION ACADEMY
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

B. Litigation

There are currently no matters in litigation with the AEA as a defendant.

NOTE 8 - COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the AEA to prepare its annual financial report in accordance with generally accepted accounting principles. However, the AEA 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 position / fund balances, and disclosures that, while material, cannot be determined at this time. The AEA can be fined and various other administrative remedies may be taken against the AEA.

NOTE 9 - PURCHASED SERVICES

For fiscal year ended June 30, 2015, expenses for purchased services were as follows:

Professional and technical services	\$ 621,992
Administrative/meeting expenses	2,921
Tuition	<u>75,060</u>
Total	<u>\$ 699,973</u>



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

Auglaize County Educational Academy
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, Ohio 45895

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the Auglaize County Educational Academy, Auglaize County, (the AEA) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the AEA's basic financial statements and have issued our report thereon dated June 7, 2017, wherein we noted the AEA uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the AEA's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the AEA's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the AEA's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-002 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the AEA'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, opining 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2016-001 and 2016-002.

AEA's Response to Findings

The AEA's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the AEA's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the AEA's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the AEA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

June 7, 2017

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Failure to File GAAP - Noncompliance

Ohio Rev. Code § 117.38 provides, 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. The report shall be certified by the proper officer or board and filed with the auditor of state within sixty days after the close of the fiscal year. Ohio Administrative Code § 117-2-03(B) further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Adm. Code § 117-2-03(B) requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Auglaize County Educational Academy (the AEA) prepared its financial statements for fiscal years 2016 and 2015 in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, deferred inflows/outflows, fund equities and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report.

In addition, the AEA did not file its 2015 annual report by the required filing date.

The Academy should prepare its annual financial statements in accordance with GAAP to include assets, liabilities, deferred inflows/outflows, equity and the disclosures required to accurately and completely present the Academy's financial condition. In addition, the AEA should implement procedures to verify that the annual financial report is filed within the required time frame or the AEA could have fines and penalties imposed.

OFFICIALS' RESPONSE: We file cash instead of gaap, due to the cost.

FINDING NUMBER 2016-002

Full-Time Equivalent (FTE) Reporting - Material Weakness / Non-Compliance

Ohio Rev. Code § 3314.08(H), in relevant part, provides that the Ohio Department of Education (ODE) adjust the amounts subtracted and paid under division (C) of that section to reflect the enrollment in community schools of students for less than the equivalent of a full school year. The state board of education within ninety days after April 8, 2003, was obligated to act under Chapter 119 of the Revised Code to adopt rules governing the payments to community schools under the section including initial payments in a school year, adjustments, and reductions made in subsequent periodic payments to community schools, and corresponding deductions from school district accounts, as provided under division (C) of the section.

Ohio Rev. Code § 3314.08(H)(2) states, in part, that "A student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system established under section 3301.0714 of the Revised Code. For purposes of applying this division and divisions (H)(3) and (4) of this section to a community school student, 'learning opportunities' shall be defined in the contract, which shall describe both classroom-based and non-classroom-based learning opportunities

FINDING NUMBER 2016-002
(Continued)

and shall be in compliance with criteria and documentation requirements for student participation which shall be established by the department. Any student's instruction time in non-classroom-based learning opportunities shall be certified by an employee of the community school.”

Ohio Rev. Code § 3314.08(H)(3) states the following, “The department shall determine each community school student's percentage of full-time equivalency (FTE) based on the percentage of learning opportunities offered by the community school to that student, reported either as number of hours or number of days, is of the total learning opportunities offered by the community school to a student who attends for the school's entire school year. However, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours. Whether it reports hours or days of learning opportunities, each community school shall offer not less than nine hundred twenty hours of learning opportunities during the school year.”

In addition, **Ohio Rev. Code § 3314.03(A)(11)(a)** states, in relevant part, that “The school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year.”

Upon the initial examination of 10 student files we noted that, while the Auglaize County Educational Academy (the AEA) was capturing computer and non-computer learning opportunities, the FTE being reported for each student was based on the number of days the student was enrolled. If a student was enrolled for the entire school year, the AEA reported in the Education Management Information System (EMIS) an FTE of one for the student. Similarly, if a student was enrolled for a portion of the year, the student's FTE was adjusted accordingly. The AEA did not adjust FTE for actual learning duration for each student in EMIS, which could result in the AEA over reporting FTE in EMIS.

After noting that the AEA was tracking FTE based on the enrollment period, we selected four students to determine if the time of duration captured by the computer system and non-computer logs were reasonable when compared to the FTE reported to ODE. However, per correspondence with its LMS (Schoology), this date is purged by the LMS and can only be obtained for the previous 90 days upon request. Therefore, we are unable to substantiate FTEs reported by the Academy based on durational support.

Further, upon review of the AEA's contract with the Auglaize Educational Service Center (the “Sponsor”); we noted the contract and attachments extensively define the educational curriculum utilized by the AEA. The contract and attachments, however, do not specify how the AEA should document “student participation” pursuant to requirements established by law, and, therefore, how the Sponsor could effectively monitor such compliance. The inclusion of such documentation would facilitate the AEA's compliance with requirements and standards established by law.

We recommend the Auglaize County Educational Academy review current statutory requirements and guidance issued by ODE to determine the documentation needed to support the FTE data to be reported for each student. Once the AEA has a clear understanding of what is required to support FTE, the AEA should review and if applicable, update, current policies and procedures to capture all critical elements of time spent by students on computer, as well as, non-computer learning opportunities. This matter will be referred to the Ohio Department of Education.

OFFICIALS' RESPONSE: We did not receive a response from Officials to this finding.

**AUGLAIZE COUNTY EDUCATIONAL ACADEMY
AUGLAIZE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code 117-2-03(B) – Failed to file financial statements in accordance with generally accepted accounting principles (GAAP)	Not Corrected	Repeated as Finding 2016-001

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AUGLAIZE COUNTY EDUCATIONAL ACADEMY

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
AUGUST 17, 2017**