



**PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
TABLE OF CONTENTS**

TITLE	PAGE
Report of Independent Accountants	1
Balance Sheet - As of June 30, 2000	3
Statement of Revenues, Expenses, and Changes in Retained Earnings – For the Period July 23, 1999 Through June 30, 2000	4
Statement of Cash Flows - For the Period July 23, 1999 Through June 30, 2000	5
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Proficiency Achievement Success Skills Community School
Lucas County
2283 Ashland Avenue
Toledo, Ohio 43620-1296

To the Governing Board:

We have audited the Balance Sheet of the Proficiency Achievement Success Skills Community School, Lucas County, (P.A.S.S.) as of June 30, 2000, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the period July 23, 1999 through June 30, 2000. These financial statements are the responsibility of P.A.S.S.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of P.A.S.S. as of June 30, 2000, and the results of operations and its cash flows for the period then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2001 on our consideration of P.A.S.S.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

January 24, 2001

This page intentionally left blank.

**PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
BALANCE SHEET
AS OF JUNE 30, 2000**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$18,021
Prepaid Items	<u>9,009</u>
Total Current Assets	27,030

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>10,930</u>
Total Assets	<u><u>\$37,960</u></u>

Liabilities and Fund Equity

Current Liabilities

Intergovernmental Payable	<u>\$142</u>
Total Liabilities	142

Fund Equity

Retained Earnings Unreserved	<u>37,818</u>
Total Liabilities and Fund Equity	<u><u>\$37,960</u></u>

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

**PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
FOR THE PERIOD JULY 23, 1999 THROUGH JUNE 30, 2000**

Operating Revenues

Foundation Payments	\$116,010
Disadvantaged Pupil Impact Aid	<u>5,837</u>
Total Operating Revenues	<u>121,847</u>

Operating Expenses

Salaries	67,657
Fringe Benefits	10,766
Purchased Services	63,163
Materials and Supplies	13,898
Depreciation	2,733
Other Operating Expenses	<u>4,753</u>
Total Operating Expenses	<u>162,970</u>
Operating Loss	<u>(41,123)</u>

Non-Operating Revenues (Expenses)

Operating Grants - State	77,845
Interest Earnings	<u>1,096</u>
Total Non-Operating Revenues (Expenses)	<u>78,941</u>
Net Income	37,818
Retained Earnings at Beginning of Year	<u>0</u>
Retained Earnings at End of Year	<u><u>\$37,818</u></u>

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

**PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE PERIOD JULY 23, 1999 THROUGH JUNE 30, 2000**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State Foundation and Disadvantaged Pupil Impact Aid	\$121,847
Cash Payments to Suppliers for Goods and Services	(90,823)
Cash Payments to Employees for Services	(67,657)
Cash Payments for Employee Benefits	<u>(10,624)</u>
Net Cash Used for Operating Activities	<u>(47,257)</u>

Cash Flows from Noncapital Financing Activities

Operating Grants Received - State	<u>77,845</u>
Net Cash Provided by Noncapital Financing Activities	<u>77,845</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(13,663)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(13,663)</u>

Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>1,096</u>
Net Cash Provided by Investing Activities	<u>1,096</u>
Net Increase in Cash and Cash Equivalents	18,021
Cash and Cash Equivalents at the Beginning of the Year	<u>0</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$18,021</u></u>

(Continued)

**PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE PERIOD JULY 23, 1999 THROUGH JUNE 30, 2000
(Continued)**

**Reconciliation of Operating Loss to
Net Cash Provided by (Used for) Operating Activities**

Operating Loss (\$41,123)

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

Depreciation	2,733
Changes in Assets and Liabilities	
(Increase) in Prepaid Items	(9,009)
Increase in Intergovernmental Payable	<u>142</u>
Total Adjustments	<u>(6,134)</u>
Net Cash Used by Operating Activities	<u><u>(\$47,257)</u></u>

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

**PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Proficiency Achievement Success Skills Community School (P.A.S.S.) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. P.A.S.S.'s objective is to provide intervention services to students who need assistance to reach proficiency levels required by state mandated testing. This program is offered for students in fifth grade. P.A.S.S., 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. P.A.S.S. may acquire facilities as needed and contract for any services necessary for the operation of the school.

P.A.S.S. was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 23, 1999. The Sponsor is responsible for evaluating the performance of P.A.S.S. 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 Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of P.A.S.S. (See Note 10.)

P.A.S.S. operates under the direction of a four-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 P.A.S.S.'s one instructional/support facility staffed by 3 non-certified and 2 certificated full time teaching personnel who provide services to 25 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of P.A.S.S. 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. P.A.S.S. also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of P.A.S.S.'s accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

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

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

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in P.A.S.S.'s contract with its Sponsor. The contract between P.A.S.S. and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by P.A.S.S. are accounted for by P.A.S.S.'s fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in P.A.S.S.'s name. Monies for all funds of P.A.S.S. are maintained in these accounts or temporarily used to purchase short-term investments. For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased by P.A.S.S. are considered to be cash equivalents.

E. Fixed Assets and Depreciation

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

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

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

F. Intergovernmental Revenues

P.A.S.S. currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

P.A.S.S. also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, P.A.S.S. was awarded \$50,000 for the planning phase of the school. Additionally, the Sponsor, as part of the Lucas County pilot project, awarded P.A.S.S. \$25,000 to partially defray school start-up costs. Revenues from these programs are recognized as non-operating revenue on the accompanying financial statements.

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

PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2000, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year the services are consumed.

3. DEPOSITS AND INVESTMENTS

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

At June 30, 2000, the carrying amount of P.A.S.S.'s deposits was \$18,021 and the bank balance was \$38,868. The bank balance was covered by federal depository insurance.

4. FIXED ASSETS

A summary of P.A.S.S.'s fixed assets at June 30, 2000, follows:

Furniture and Equipment	\$ 4,794
Leasehold Improvements	<u>8,869</u>
	13,663
Less: accumulated depreciation	<u>(2,733)</u>
Net Fixed Assets	\$ <u>10,930</u>

5. RISK MANAGEMENT

A. Property and Liability

P.A.S.S. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal period July 23, 1999 through June 30, 2000, P.A.S.S. contracted with Nationwide Insurance Company for property and general liability insurance.

Professional liability is protected by Nationwide Ohio Educational Liability Insurance with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible.

B. Workers' Compensation

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

C. Employee Dental Benefits

P.A.S.S. has contracted through a private source to provide employee dental insurance for the Administrator.

PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

6. DEFINED BENEFIT PENSION PLANS

A. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security System. As of June 30, 2000, P.A.S.S. has no employees or members of the governing board which contribute to the Social Security System.

B. School Employees Retirement System

P.A.S.S. contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and P.A.S.S. is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.5 percent was the portion used to fund pension obligations for fiscal year 2000. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. P.A.S.S.'s required contribution for pension obligations to SERS for the period July 23, 1999 through June 30, 2000 was \$ 398; 100.00 percent has been contributed for the period July 23, 1999 through June 30, 2000.

C. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and P.A.S.S. is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. P.A.S.S.'s required contribution for pension obligations to STRS for the period July 23, 1999 through June 30, 2000 was \$8,495; 100.00 percent has been contributed for the fiscal period.

PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

7. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the period July 23, 1999 through June 30, 2000, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For P.A.S.S., this amount equaled \$4,854 for the period.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,783 million at June 30, 1999 (the latest information available). For the fiscal year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000, and STRS had 95,796 eligible benefit recipients.

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

For this fiscal period, employer contributions to fund health care benefits were 8.5 percent of covered payroll, an increase from 6.3 percent for fiscal year 1999. 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 the period July 23, 1999 through June 30, 2000, the minimum pay has been established at \$12,400. For P.A.S.S., the amount to fund health care benefits, including the surcharge, was \$614 for the period July 23, 1999 through June 30, 2000.

8. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to P.A.S.S.. During the period ended June 30, 2000, P.A.S.S. received \$116,010 of school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997 decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local

PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, P.A.S.S. is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

9. CONTINGENCIES

Grants

P.A.S.S. 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 funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of P.A.S.S. at June 30, 2000.

10. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of P.A.S.S. As part of this agreement, P.A.S.S. shall compensate the Lucas County Educational Service Center four percent (4%) of the per pupil allotments paid to P.A.S.S. from the State of Ohio. Total payments for fiscal period July 23, 1999 through June 30, 2000 were \$5,000.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of P.A.S.S.:

1. Maintain custody of all funds received by P.A.S.S. in segregated accounts separate from the Sponsor's or any other Community School's funds;
2. Maintain all books and accounts of all funds of P.A.S.S.;
3. Maintain all financial records of all state funds of P.A.S.S. and follow State Auditor procedures for receiving and expending state funds;
4. Assist P.A.S.S. in meeting all financial reporting requirements established by the Auditor of Ohio;
5. Invest funds of P.A.S.S. in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
6. Pay obligations incurred by P.A.S.S. within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of P.A.S.S. so long as the proposed expenditure is within the approved budget and funds are available.

PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

11. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2000, purchased service expenses were payments for services rendered, as follows:

PURCHASED SERVICES

Administrative	\$16,705
Fiscal Agent Fee	5,000
Bus Operation	2,133
Maintenance Related Services	1,775
Accounting/Legal Services	340
Employee Background Checks	354
Other Professional and Technical Services	1,884
Property Services	28,912
Travel Mileage/Meeting Expense	1,454
Communications	4,606
Total Purchased Services	\$63,163

12. TAX EXEMPT STATUS

P.A.S.S. has filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code and is currently waiting for a response. P.A.S.S. has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.

13. RELATED PARTY

For the period July 23, 1999 through June 30, 2000, P.A.S.S.'s Governing Board entered into a one-year employment contract with the Administrator. The Administrator is a voting member of the Governing Board. Total payments to the Administrator for salary were \$20,395.

14. OPERATING LEASES

P.A.S.S. entered into a lease for the period October 1, 1999 through August 31, 2000 with "Family Outreach Community United Services, Inc." to lease space to house the P.A.S.S. Community School. Payments made totaled \$24,813 for the period ending June 30, 2000. P.A.S.S. has the option to renew the lease for an additional one-year term, with the rent increase not to exceed three percent.

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

Proficiency Achievement Success Skills Community School
Lucas County
2283 Ashland Avenue
Toledo, Ohio 43620-1296

To the Governing Board:

We have audited the financial statements of Proficiency Achievement Success Skills Community School, Lucas County, (P.A.S.S.), as of June 30, 2000 and for the period July 23, 1999 through June 30, 2000, and have issued our report thereon dated January 24, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether P.A.S.S.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered P.A.S.S.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 P.A.S.S.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2000-10148-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of P.A.S.S. in a separate letter dated January 24, 2001.

This report is intended for the information and use of management, the Governing Board, and the Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

January 24, 2001

PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL

**SCHEDULE OF FINDINGS
FOR THE FISCAL PERIOD ENDED JUNE 30, 2000**

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

FINDING NUMBER 2000-10148-001

Material Weakness

Fixed Assets

The following control weaknesses over fixed assets exist:

- P.A.S.S. has not developed a fixed asset accounting system which maintains total fixed asset listings, by location, with tag identification numbers and other supplemental information.
- P.A.S.S. has not developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the fiscal year.
- P.A.S.S. has not developed and implemented procedures to perform periodic inventory of assets.
- The Governing Board has not developed a fixed asset policy wherein it sets forth the capitalization criteria for P.A.S.S..

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

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

- The Governing Board develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting P.A.S.S.'s capitalization criteria. Further, addition and disposal forms should be completed by P.A.S.S. and approved by management when assets are acquired or disposed. This information should then be entered on a fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation.
- P.A.S.S. develop and implement procedures for performing periodic(annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets included on the listing should be added. Any significant deficiency should be investigated and documented accordingly.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

PROFICIENCY ACHIEVEMENT SUCCESS SKILLS COMMUNITY SCHOOL

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
MARCH 15, 2001**