SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Springfield Academy of Excellence
Clark County
623 South Center Street
Springfield, OH 45502

We have audited the accompanying financial statements of the Springfield Academy of Excellence, Clark County, (the Academy), as of and for the year ended June 30, 2003, 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 *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 the Academy as of June 30, 2003, and the results of its operations and the cash flow 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 May 5, 2004 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Betty Montgomery

Betty Montgomery
Auditor of State

May 5, 2004

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SPRINGFIELD ACADEMY OF EXCELLENCE, INC.
CLARK COUNTY

BALANCE SHEET
JUNE 30 2003

Assets	
Current assets	
Cash and cash equivalents	$78,017
Receivables:	
Grants	52,721
Accounts	1,329
Prepaid expenses	1,498
Total current assets	133,565
Noncurrent assets	
Security deposit	6,454
Fixed assets (net of accumulated depreciation)	24,889
Total noncurrent assets	31,343
Total assets	164,908
Liabilities and Fund Equity	
Current liabilities	
Accounts payable	14,357
Accrued wages payable	68,932
Intergovernmental payable	33,311
Compensated absences payable	7,949
Notes payable	24,531
Total liabilities	149,080
Fund equity	
Retained earnings	15,828
Total liabilities and fund equity	$164,908

The accompanying notes are an integral part of the financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.
CLARK COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEAR ENDED JUNE 30, 2003

Operating Revenues	
Foundation payments	$710,488
Disadvantaged pupil impact aid	143,140
Donated leases	177,316
Charges for services	25,158
Miscellaneous operating revenue	1,142
Total Operating Revenues	1,057,244
Operating Expenses	
Salaries	704,158
Fringe benefits	185,357
Lease payments	284,651
Other purchased services	110,859
Materials and supplies	158,024
Depreciation	7,552
Other	11,145
Total Operating Expenses	1,461,746
Operating loss	(404,502)
Non-operating revenues and (expenses)	
State and federal grant revenue	491,130
Gifts and donations	23,930
Fundraising	17,837
Interest earnings	48
Interest and fiscal charges	(816)
Total Non-Operating Revenues (Expense)	532,129
Net Income	127,627
Accumulated deficit, beginning of year (restated - see Note 3)	(111,799)
Retained earnings, end of year	$15,828

The accompanying notes are an integral part of the financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.
CLARK COUNTY

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2003

Increase(Decrease) in Cash and Cash Equivalents	
Cash Flows From Operating Activities	
Cash from State of Ohio	$848,794
Cash from customers	23,844
Cash payments to suppliers for goods and services	(399,423)
Cash payments to employees for services and benefits	(857,819)
Other operating revenue	1,262
Net cash used for operating activities	(383,342)
Cash Flows From Noncapital Financing Activities	
Federal and state subsidies	459,608
Gifts and contributions	2,744
Fundraising activities	17,837
Note proceeds	12,000
Principal paid on notes	(43,070)
Interest paid on notes	(883)
Net cash provided by noncapital financing activities	448,236
Cash Flows From Capital and Related Financing Activities	
Cash payments for capital acquisitions	(3,669)
Cash Flows From Investing Activities	
Interest on investments	48
Net Increase in Cash and Cash Equivalents	61,273
Cash and Cash Equivalents, Beginning of Year	16,744
Cash and Cash Equivalents, End of Year	78,017
Reconciliation of Operating Loss to Net Cash Used for for Operating Activities	
Operating loss	(404,502)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	7,552
Changes in assets and liabilities:	
Increase in accounts receivable	(1,194)
Increase in prepaid items	(1,438)
Decrease in supplies inventory	502
Decrease in accounts payable	(12,082)
Increase in accrued wages payable	22,589
Decrease in intergovernmental payable	5,539
Decrease in compensated absences payable	(308)
Total Adjustments	21,160
Net Cash Used forOperating Activities	($383,342)

Non-Cash Items:

During the fiscal year ended June 30, 2003 lease obligations of $177,316 and notes payable of $21,186 were forgiven and not evidenced by cash transactions.

The accompanying notes are an integral part of the financial statements.

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NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Springfield Academy of Excellence, Inc. (the Academy) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702. The Academy's objective is to provide education in a nurturing environment that focuses on the development of the whole child. Emphasis is placed on academic achievement as well as physical, psychological, social and ethical development. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax exempt organization under Section 501(c)(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 school's tax exempt status.

The Academy was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing after May 29, 2001. 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 Academy has retained under contract the financial services of the Lucas County Educational Service Center with the Treasurer of Lucas County Educational Service Center serving as the Chief Fiscal Officer of the Academy (see Note 14).

The Academy operates under the direction of a seven-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which includes, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 11 non-certified and 14 certificated full-time teaching personnel.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in United States of America (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, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund 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 liabilities) consists of retained earnings. The operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

The accrual basis of accounting is utilized 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 Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with an original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of $500. The Academy does not have 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 the asset's life are expensed.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenue

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

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded $150,000 for the year ended June 30, 2003. Revenue from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under federal grants and entitlements for the 2003 school year totaled $479,470.

G. Prepaid Items

Prepayments and deferrals represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payments.

H. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2003, including:

Wages Payable – Salary payments made after year-end that were for services rendered in fiscal year 2003. Teaching personnel are paid in 24 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2003 for all salary payments made to teaching personnel during the month of July 2003.

Intergovernmental Payable – Payment for the employer's share of the retirement contribution $31,251, workers' compensation $386 and Medicaid $716 associated with services rendered during fiscal year 2003, but were not paid until the subsequent fiscal year. In addition to salary related payments, the Academy owed $958 to other governmental agencies for miscellaneous obligations at June 30, 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

Paid time off benefits are accrued as a liability as the benefits are earned if the employees' right to receive compensation are attributed to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means. The Academy records a liability for fifty percent of accumulated unused sick leave and personal days earned by all employees.

J. Security Deposit

The Academy entered into several leases for the use of the building for the administration of the Academy, for computer start-up costs and computer equipment, and for use of a certain phone company for which security deposits were required to be paid at the signing of the agreement. These amounts are held by the respective leaser/vendor.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. PRIOR PERIOD ADJUSTMENT

Certain lease and note obligations were miscalculated at June 30, 2002 that resulted in the Academy's liabilities being overstated by $36,476. Correction of these errors would have decreased the net loss realized by the Academy from ($148,275) to ($111,799), as well as, reduced the overall accumulated deficit from ($148,275) to ($111,799).

4. DEPOSITS AND INVESTMENTS

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

Deposits: At June 30, 2003, the carrying amount of the Academy's deposits was $78,017 and the bank balance was $108,221. Of the bank balance $108,221 was covered by federal deposit insurance and the remaining amounts are collateralized with securities held by the pledging financial institution's trust department or agent in the Academy's name.

5. RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants and accounts receivables associated with latchkey services provided. All receivables are considered collectible in full.

Intergovernmental receivable of the School at June 30, 2003 consisted of Federal reimbursements of $7,312 for operation of food service programs, $560 for Title V programs; and State reimbursement of $44,849 for the cost of providing intervention services to students in fiscal year 2003, but were not received until after year-end.

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003, follows:

Furniture and Equipment	$39,082
Less: Accumulated Depreciation	(14,193)
Net Fixed Assets	$24,889

7. RISK MANAGEMENT

Property and liability – The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, the Academy contracted with Cincinnati Insurance Co. for property, general liability, auto, and excess liability insurance. Property coverage is covered for $249,800 and contents are insured for $360,600. There is a deductible of $250 and property and contents are 90 percent co-insured.

Commercial general liability covers each single occurrence for $1 million with a $2 million general aggregate limit. Automobile liability has a combined single limit of $1 million. The excess liability is covered for $1 million for each occurrence and $1 million in the aggregate.

Worker's compensation – The Academy pays the State Worker's Compensation System a premium for employee injury by the State.

Employee insurance benefits – The Academy has contracted through an independent agent to provide employee medical insurance to its full time employees who work 25 or more hours per week.

8. DEFINED BENEFIT PENSION PLANS

A. 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 State Statue 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 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current 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 2003, 8.17 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, 2003 and 2002 were $26,714 and $6,816 respectively; 100 percent was contributed for fiscal year 2002 and 64.61 percent was contributed for fiscal year 2003.

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations for the fiscal years ended June 30, 2003 and 2002 were $69,133 and $32,666 respectively; 100 percent was contributed for fiscal year 2002 and 85.44 percent was contributed for fiscal year 2003.

9. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the fiscal year ended June 30, 2002, 4.5 percent of covered payroll was allocated to the fund. The balance in the Health Care Reserve Fund was $2.8 billion on June 30, 2003. For the Academy, this amount equaled $5,318 during the 2003 fiscal year.

For the year ended June 30, 2003, net health care costs paid by STRS Ohio were $352,301,000. There were 108,294 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, the allocation rate is 5.83 percent. 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 2003, the minimum pay has been established at $14,500. For the Academy, the amount to fund health care benefits, including the surcharge, was $23,274 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003, were $204,930,737 and the target level was $307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits of $303.6 million. The number of benefit recipients currently receiving heath care benefits is approximately 50,000.

10. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to state funding for fiscal year 2004, as a result of such review.

C. Litigation

A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the state constitution and state laws. 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 for oral argument on November 18, 2003. The affect of this suit, if any, on the Academy is not presently determinable.

11. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "… the Ohio General Assembly to enact a school funding scheme that is thorough and efficient …". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

12. OPERATING LEASES

The Academy is leasing the use of land, office and classroom space, and various pieces of equipment through operating leases with the Church of Jesus Family Worship Center (the Church) and the Precious Gifts Day Care Center (the Day Care Center). Total lease obligations to the Church for fiscal year 2003 totaled $207,316 and the Academy paid $30,000 of these obligations with the Church forgiving the remaining $177,316. Total lease obligations to the Day Care Center totaled $77,335 in fiscal year 2003 that the Academy paid in full.

Future lease obligations include:

- A lease of land from the Church in the amount of $144,000 for fiscal year 2003 was forgiven by the Church. On July 1, 2003 the Church and the Academy entered into a new ninety-nine year lease for the land that stipulates the school will be permitted to use the grounds for an annual fee of one dollar.

12. OPERATING LEASES (Continued)

- A lease of the Annex and other building space from the Church, beginning October 1, 2001 through July 1, 2006 in the amount of $63,316 per year. During fiscal year 2003, the Academy paid $30,000 and the remaining $33,316 was forgiven by the Church. Lease payments are expected to remain the same for the remaining term of the lease.

- A lease of 12 double modular systems and 50 parking spaces, from the Day Care Center with lease obligations of $5,000 per month. During fiscal year 2003, the Academy paid the Day Care Center $60,000 related to this lease. Lease payments are expected to remain the same for the remainder of the lease.

- The Academy also leases food storage and freezer space, and certain equipment from the Day Care Center. Total lease obligations related to these items totaled $17,335 for fiscal year 2003 with the Academy paying the entire obligation during the fiscal year. Lease payments are expected to remain the same for the remaining term of the leases.

13. OTHER PURCHASED SERVICES

During the year ended June 30, 2003, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	$66,805
Communications & networking services	18,084
Travel & meeting expenses	9,594
Utilities	12,555
Contract custodial services	2,251
Pupil transportation	1,570
	$110,859

14. FISCAL AGENT

The School's contract with the Lucas County Education Service Center (ESC) states the Treasurer of the ESC shall serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the ESC two percent (2%) of the per pupil allotments paid to the School from the State of Ohio. The School paid the ESC $13,943 during fiscal year 2003. The Treasurer of the ESC shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

a. Maintain custody of all funds received by the school in segregated accounts separate from Lucas County ESC or any other Community School's funds;

b. Maintain all books and accounts of the School;

c. Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;

d. Invest funds of the School in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of the Lucas County ESC or any other community school; and

14. FISCAL AGENT

e. Pay obligations incurred by the School 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 the School so long as the proposed expenditure is within the approved budget and funds are available.

The agreement for these services was terminated effective June 30, 2003.

15. NOTES PAYABLE

During fiscal year 2003, the Academy made payments on several promissory notes issued during fiscal year 2002 to individuals who loan the Academy money or were owed for services rendered to the Academy. This activity is summarized below:

Obligation	Beginning Balance	Additions	Cash Payments	Amount Forgiven	Ending Balance
2002 Promissory Note – Bishop Pratt; 7.0% APR	$16,706	$0	$16,450	$256	$0
2002 Promissory Note – Title I Coordinator; 0.0% APR	4,962	0	4,962	0	0
2002 Promissory Note – Director and other Officers; 1.5% APR	55,119	0	9,657	20,931	24,531
Note – Precious Gifts Day Care	0	12,000	12,000	0	0
Total	$76,787	$12,000	$43,069	$21,187	$24,531

The Academy issued a promissory note dated August 15, 2001 to the Director's husband, Bishop Cecil Pratt, in the amount of $17,000 with interest at the rate of 7 percent as repayment for his financial assistance in the payment of expenses for the installation of the modular classroom units. During fiscal year 2003, Bishop Pratt forgave $256 of the note, which is recorded as a contribution to the Academy. During the fiscal year interest totaled $540 related to this note.

The Academy issued a promissory note dated May 2, 2002 for partial payment to the Title I Coordinator, for partial payment of her salary, in the amount of $4,962 and bearing no interest.

During fiscal year 2002, the Director and other Officers loaned the Academy a total of $55,119 for cash flow purposes. Of this amount, $20,931 was forgiven (recorded as a contribution to the Academy) and $9,657 was repaid by the Academy during fiscal year 2003. Interest expense totaled $343 for the year ended June 30, 2003. The remaining balance due the Director, $24,531 is recorded as notes payable and is expected to be repaid during fiscal year 2004.

During October 2002, the Academy issued a $12,000 short-term note to the Precious Gifts Day Care Center to provide operating funds, which was repaid prior to the end of that same month.

16. RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2003, the Academy made payments on several lease agreements with the Precious Gifts Day Care Center (the Day Care Center) and the Church of Jesus Family Worship Center (the Church), which are affiliated with the Director and a Trustee of the Academy. The Director is the operator of the Day Care Center and the Trustee is the Pastor of the Church. Expenses recognized to the Day Care Center were $77,352 and to the Church were $30,000 for the fiscal year ending June 30, 2003. Throughout the fiscal year ending June 30, 2003, the Church forgave a total of $177,316 in the lease agreements, which is reflected on the accompanying financial statements.

During October 2002, the Academy issued a $12,000 short-term note to the Day Care Center to provide operating funds. This note was repaid by the Academy prior to the end of that same month.

Additionally, the Director and a Trustee of the Academy loaned the Academy operating funds during the previous fiscal year. During fiscal year 2003, the Academy paid $9,657 to the Director and $16,450 to the Trustee on the funds borrowed in fiscal year 2002. Further, the Director forgave $20,000 of these funds loaned to the Academy. The remaining $24,531 of the funds owed to the Academy by the Director is shown as notes payable at June 30, 2003.

SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
Passed Through Ohio Department of Education:						
Nutrition Cluster:						
Donated Commodities	LL-P1-02	10.550		$9,450		$9,450
National School Breakfast Program	05-PU-02	10.553	5,119		5,119	
	05-PU-03		12,788		12,788	
Total National School Breakfast Program			17,907		17,907	
National School Lunch Program	LL-P1-02	10.555	351		351	
	LL-P1-03		1,047		1,047	
	LL-P4-02		12,701		12,701	
	LL-P4-03		32,799		32,799	
Total National School Lunch Program			46,898		46,898	
Summer Food Service Program	23-PU-02	10.559	1,932		1,932	
	24-PU-02		865		865	
Total Summer Food Service Program			2,797		2,797	
Total U.S. Department of Agriculture - Nutrition Cluster			67,602	9,450	67,602	9,450
U.S. DEPARTMENT OF EDUCATION						
Passed Through Ohio Department of Education:						
Title I	C1-S1-02	84.010	61,733		61,733	
	C1-S1-03		114,330		95,402	
Total Title I			176,063		157,135	
Title VI-B	6B-CM-02P	84.027	7,684		7,676	
IDEA-B 2003	6B-CM-03P		4,127		3,843	
Total VI-B			11,811		11,519	
Safe and Drug Free Schools Grant	DR-S1-03	84.186	1,367		1,078	
Charter School Grant	CH-S1-02	84.282	150,000		150,000	
Innovative Educational Program Strategies	C2-S1-02	84.298	90		90	
	C2-S1-03		930		1,380	
Total Innovatice Education Program Strategies			1,020		1,470	
Education Research Development and Dissemination	TJ-S1-03	84.318	3,128		1,573	
Improving Teach Quality	TR-S1-03	84.367	15,242		15,242	
Total U.S. Department of Education			358,631		338,017	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through Clark County Department of Job and Family Services:						
Child Care and Development Block Grant	N/A	93.575	516		2,281	
Total Federal Financial Assistance			$426,749	$9,450	$407,900	$9,450

The accompanying notes to this schedule are an integral part of this schedule.

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—NUTRITION CLUSTER

Non-monetary assistance, such as food received form the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and consumed. Monies are commingled with State grants. It is assumed Federal monies are expended first. The Academy could not substantiate the total donated commodities disbursement amount, therefore the total commodities receipts amount was used as the disbursement amount.

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Auditor of State
Betty Montgomery

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

Springfield Academy of Excellence
Clark County
623 South Center Street
Springfield, Ohio 45502

To the Governing Board:

We have audited the financial statements of Springfield Academy of Excellence, Clark County (the Academy), as of and for the year ended June 30, 2003, and have issued our report thereon dated May 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated May 5, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a 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 the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-001.

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Internal Control Over Financial Reporting
(Continued)

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. We consider item 2003-001 to also be 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 the Academy in a separate letter dated May 5, 2004.

This report is intended for the information and use of the audit committee, management, Governing Board and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

May 5, 2004

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Springfield Academy of Excellence
Clark County
623 South Center Street
Springfield, OH 45502

Compliance

We have audited the compliance of Springfield Academy of Excellence, Clark County (the Academy), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying schedule of findings as item 2003-002. We also noted an instance of noncompliance that does not require inclusion in this report that we have reported to management of the Academy in a separate letter dated May 5, 2004.

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Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Academy's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 also consider item 2003-001 to be a material weakness. We also noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of Academy in a separate letter dated May 5, 2004.

This report is intended for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

May 5, 2004

SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR END JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material non-compliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	Yes
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Title I: CFDA # 84.010 & Charter School Grant: CFDA # 84.282
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

FINDING NUMBER 2003-001

Supporting documentation attached to vouchers for payment included copies of invoices rather than the original invoices. Nineteen, or 32%, of expenditures tested totaling $27,156 were made without original documentation (invoices), including two federal grant transactions totaling $672. The School should maintain the original invoices from vendors. Failure to pay obligations from original documentation could result in duplicate payments and increases the risk of unauthorized expenditures.

Controls established by the school required both the signature of the Director indicating approval of the purchase of goods or services, and of the Business Manager indicating that funds were available. Additionally, the fiscal officer's signature was required on vouchers indicating approval for payment of the invoices. Based on review of 60 expenditures, including 9 federal grant transactions, the following weaknesses were noted:

- 29, or 48%, of the purchase orders lacked the Director's signature. One of those involved federal funds totaling $2,500.
- 28, or 47%, of the purchase orders lacked the Business Manager's signature. One of those involved federal funds totaling $2,500.
- 38, or 63%, of the vouchers lacked the Fiscal Officer's approval. Five of those involved federal grant funds totaling $4,388.

Failure to obtain the required written approvals could result in expenditures for goods or services which are not for proper public purpose under State or Federal law, further resulting in the loss of future funding. Additionally, it could also result; in goods or services converted for personal use; or in the lack of available funds to meet obligations.

The School should follow established controls that were designed to provide that all required signatures are attached to the applicable document, before the placing of any order or payment of any invoice.

Client Response:
Issue: The School established an internal control requiring that purchase orders must bear the signatures of the business manager, superintendent and treasurer prior to the approval of a purchase. Internal controls that had been established by the School were not always adhered to. Because of the physical distance, greater than 210 miles, between the former treasurer and the school, the School did not travel to the treasurer's site to verify that all controls were functioning as designed.

Corrective Action: The School has contracted with a local treasurer that is physically on site each week, thus eliminating the distance factor. A more rigorous set of checks and balances have been established to assure that internal controls are functioning and being followed as designed.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2003-002
CFDA Title and Number	Charter School Grant (CFDA # 84.282)
Federal Award Number / Year	CH-S1-02
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Under Ohio Department of Education Federal Fiscal Report Procedures #1, schools receiving federal monies are required to submit a Final Expenditure Report (FER) for each project immediately after all financial obligations have been liquidated. The report is due no later than 60 days after the end of the project period. The Academy did not complete or submit the Federal Charter School Grant FER to the Ohio Department of Education until March 16, 2004. The total Federal Funds received by this grant was $150,000 and the entire amount was obligated by June 25, 2003.

Procedures should be developed and implemented to provide that all reports are accurately completed and filed in a timely manner. Failure to meet all reporting requirements may result in a suspension of the flow of federal funds.

Client Response:
Issue: A Final Expenditure Report for the Federal Charter School Grant was not filed in a timely manner. The funds for this grant were obligated by June 25, 2003. Since it is the treasurer's responsibility to file the FER, it was assumed that the proper documentation had been filed. On June 30, 2003, the School terminated the contract with the treasurer. During this transitional period, the FER was not submitted.

Corrective Action: The current treasurer has established a check off list for all grants to assure that submissions are filed in a timely manner

SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY

SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-10312-001	The Academy had outstanding debt at year-end	Yes	
2002-10312-002	The lease agreements that extended beyond the fiscal year did not contain a fiscal funding or cancellation clause.	Yes	
2002-10312-003	Leave balances for salaried employees were not maintained or reviewed on a regular basis.	Yes	
2002-10312-004	The Academy included buildings and equipment that were leased from Precious Gifts and the Church of Jesus, on their fixed assets listing.	Yes	
2002-10312-005	The Academy ended the year with an accumulated deficit of $111,799.	Yes	

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SPRINGFIELD ACADEMY OF EXCELLENCE

CLARK 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
JUNE 15, 2004