



**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

REGULAR AUDIT

FOR THE PERIOD OCTOBER 8, 2004 THROUGH JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lancaster-Fairfield Alternative School
Fairfield County
111 South Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the accompanying basic financial statements of the Lancaster-Fairfield Alternative School, Fairfield County, Ohio (LFAS), as of and for the period ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of LFAS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lancaster-Fairfield Alternative School, Fairfield County, Ohio, as of June 30, 2005, and the changes in its financial position and its cash flows for the period 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 January 13, 2006, on our consideration of LFAS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

January 13, 2005

**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

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

The discussion and analysis of the Lancaster-Fairfield Alternative School's (LFAS) financial performance provides an overall review of the LFAS's financial activities for the period ended June 30, 2005. Readers should also review the basic financial statements and notes to enhance their understanding of the LFAS's financial performance.

Highlights

LFAS finished its first year of operation during 2005 as a seventh through twelfth grade alternative school for students placed by the Fairfield County Juvenile Court. Enrollment varied during the year, but averaged 36 students.

Key highlights for the period ended June 30, 2005, are as follows:

- Net assets at June 30, 2005, were \$120,031.
- LFAS had operating income of \$98,210.
- Total assets were \$326,908.
- Total liabilities were \$206,877.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how LFAS did financially during the period ended June 30, 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report LFAS's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of LFAS has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

LFAS uses enterprise presentation for all of its activities.

LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY

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

Table 1 provides a summary of LFAS's net assets for the period ended June 30, 2005:

Table 1
Net Assets

| | |
|--------------------------|-------------------------|
| <u>Assets:</u> | |
| Current and Other Assets | <u>\$326,908</u> |
| <u>Liabilities:</u> | |
| Current Liabilities | <u>206,877</u> |
| <u>Net Assets:</u> | |
| Unrestricted | <u>120,031</u> |
| Total Net Assets | <u><u>\$120,031</u></u> |

Table 2 reflects the changes in net assets for the period ended June 30, 2005.

Table 2
Change in Net Assets

| | |
|--------------------------------|-------------------------|
| <u>Operating Revenues:</u> | |
| Foundation | \$306,639 |
| <u>Non-Operating Revenues:</u> | |
| Operating Grants | <u>21,821</u> |
| Total Revenues | <u>328,460</u> |
| <u>Operating Expenses:</u> | |
| Purchased Services | 208,365 |
| Materials and Supplies | <u>64</u> |
| Total Expenses | <u>208,429</u> |
| Total Increase in Net Assets | <u><u>\$120,031</u></u> |

LFAS had an increase in net assets of \$120,031 for the period ended June 30, 2005. LFAS received foundation payments from the State based on the number of full-time equivalency students. LFAS also received a grant from the Ohio Department of Education for a Special Education Part B Flow Thru Grant for handicap upgrades to the facility. The purchased services expenses were mainly for staffing services with the Fairfield County Juvenile Court and the Fairfield County Educational Service Center.

LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY

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

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

LFAS did not have any capital assets during the period ended June 30, 2005. LFAS used the facility of the Fairfield County Juvenile Court.

Debt

LFAS has not incurred any debt.

Current Issues

LFAS continues to help students receive an education. LFAS serves the most at-risk students who are faced with problems such as delinquency and drug use, which make educating these students a challenge but one the LFAS is uniquely qualified to do.

Contacting the LFAS's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of LFAS's finances and to show LFAS's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Scott Osborne, Treasurer, Lancaster-Fairfield Alternative School, 111 South Broad Street, Lancaster, Ohio 43130. Or E-Mail at S.OSBORNE@LANCASTER.K12.OH.US.

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**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

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

| | |
|------------------------------|-------------------------|
| <u>Assets:</u> | |
| Current Assets: | |
| Cash and Cash Equivalents | \$297,681 |
| Intergovernmental Receivable | 29,227 |
| Total Assets | <u>326,908</u> |
| <u>Liabilities:</u> | |
| Current Liabilities: | |
| Intergovernmental Payable | 206,877 |
| Total Liabilities | <u>206,877</u> |
| <u>Net Assets:</u> | |
| Unrestricted | 120,031 |
| Total Net Assets | <u><u>\$120,031</u></u> |

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE PERIOD ENDED JUNE 30, 2005**

| | |
|-----------------------------------|-------------------------|
| <u>Operating Revenues:</u> | |
| Foundation | <u>\$306,639</u> |
| | |
| <u>Operating Expenses:</u> | |
| Purchased Services | 208,365 |
| Materials and Supplies | <u>64</u> |
| Total Operating Expenses | <u>208,429</u> |
| | |
| Operating Income | 98,210 |
| | |
| <u>Non-Operating Revenues:</u> | |
| Operating Grants | <u>21,821</u> |
| | |
| Change in Net Assets | 120,031 |
| | |
| Net Assets at Beginning of Period | <u>0</u> |
| Net Assets at End of Period | <u><u>\$120,031</u></u> |

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

| | |
|---|----------------|
| Cash Received from Foundation | \$306,639 |
| Cash Payments to Suppliers for Goods and Services | (13,840) |
| Net Cash Used for Operating Activities | <u>292,799</u> |

Cash Flows from Noncapital Financing Activities:

| | |
|---------------------------|--------------|
| Operating Grants Received | <u>4,882</u> |
|---------------------------|--------------|

Net Increase in Cash and Cash Equivalents 297,681

| | |
|---|-------------------------|
| Cash and Cash Equivalents Beginning of Period | <u>0</u> |
| Cash and Cash Equivalents End of Period | <u><u>\$297,681</u></u> |

Reconciliation of Operating Income to

Net Cash Provided by Operating Activities:

| | |
|------------------|----------|
| Operating Income | \$98,210 |
|------------------|----------|

Adjustments to Reconcile Operating Income
to Net Cash Used for Operating Activities:

Changes in Assets and Liabilities:

| | |
|--|----------------|
| Increase in Intergovernmental Receivable | (12,288) |
| Increase in Intergovernmental Payable | <u>206,877</u> |

Net Cash Provided by Operating Activities \$292,799

See accompanying notes to the basic financial statements

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**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

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

1 DESCRIPTION OF THE SCHOOL

The Lancaster-Fairfield Alternative School (LFAS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. LFAS's mission is to utilize a holistic approach to the education of at-risk students, offering students a variety of programs that address the physical, social, emotional, and educational needs of the students. LFAS feels it is necessary to assist at-risk youth in developing positive behaviors and attitudes and become successful learners. Currently the LFAS only services students within the Lancaster City School District, the Sponsor school district.

LFAS began operations on October 8, 2004. LFAS entered into a five year contract with the Lancaster City School District (the Sponsor). The Sponsor is responsible for evaluating the performance of LFAS and has the authority to deny renewal of the contract at its expiration. The Treasurer of the Sponsor also completes the role of Treasurer for LFAS.

LFAS operates under the direction of a nine-member Board of Directors made up of three-members from the Lancaster City School District, one member from a local school district within Fairfield County, one member from the Fairfield County Juvenile Court, the superintendent of the Fairfield County Educational Service Center, a County Special Education person, a Business member from the Community, and one member from the Fairfield County Job and Family Services department. As of June 30, 2005, only seven of nine Board member positions were filled. The Sponsor can suspend LFAS's operations for any of the following reasons: 1) LFAS's failure to meet student performance requirements stated in its contract with the Sponsor, 2) LFAS's failure to meet generally accepted standards of fiscal management, 3) LFAS's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of LFAS and the children it serves. The Fairfield County Juvenile Court and the Fairfield County Educational Service Center (ESC) provide staffing services. The Sponsor provides EMIS services. LFAS also reimbursed the Sponsor for expenses paid by the Sponsor that should have been paid by LFAS. LFAS did not have any employees. LFAS used the facilities of the Fairfield County Juvenile Court.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of LFAS have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. LFAS 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 entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of LFAS's accounting policies are described below.

A. Basis of Presentation

The LFAS's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

LFAS uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of LFAS are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how LFAS finances meet its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. LFAS's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which LFAS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which LFAS must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to LFAS on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by LFAS's contract with its Sponsor. The contract between LFAS and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

E. Cash and Cash Equivalents

Cash received by LFAS is reflected as "Cash and Cash Equivalents" on the statement of net assets. LFAS had no investments during the period ended June 30, 2005.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by LFAS or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. LFAS applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The statement of net assets reports no restricted net assets.

**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Operating Revenues and Expenses

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

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, LFAS's deposits may not be returned. LFAS does not have a deposit policy for custodial credit risk. At June 30, 2005, the carrying amount and bank balance of LFAS's deposits was \$297,681. \$100,000 of the bank balance was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$197,681 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by LFAS.

4. RECEIVABLES

At June 30, 2005, receivables consisted of intergovernmental receivables of \$16,939 from the Ohio Department of Education for the Special Education Part B Flow Thru Grant and a refund of \$12,288 from the State Teacher Retirement System (STRS). The STRS receivable was due to payments being processed to STRS in error through the State Foundation payments. The receivables are expected to be collected in full within one year.

5. RISK MANAGEMENT

LFAS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, LFAS contracted with Hilb, Rogal, and Hobbs for insurance coverage with the Netherlands Insurance Company. The types and amounts of coverage provided are as follows:

| | |
|---|-------------|
| General Liability: | |
| Each Occurrence | \$1,000,000 |
| Aggregate Limit | 3,000,000 |
| Products - Completed Operations Aggregate Limit | 1,000,000 |
| Medical Expense Limit - Any One Person/Occurrence | 10,000 |
| Damage to Rented Premises - Each Occurrence | 500,000 |
| Personal and Advertising Injury | 1,000,000 |
| Errors and Omissions (Deductible \$10,000): | |
| Each Occurrence | 1,000,000 |
| Aggregate Limit | 1,000,000 |

**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

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

5. RISK MANAGEMENT (Continued)

Settled claims have not exceeded this commercial coverage.

6. PURCHASED SERVICES

For the period October 8, 2004 through June 30, 2005, purchased service expenses were for the following:

| <u>Type</u> | <u>Amount</u> |
|---|-------------------------|
| Legal Services | \$238 |
| Metropolitan Educational Council for computer services | 1,250 |
| Lancaster City School District (Sponsor) for EMIS services | 3,000 |
| Lancaster City School District (Sponsor) for reimbursement of staffing services provided by the ESC paid by the Sponsor | 39,647 |
| Fairfield County Juvenile Court for staffing services | <u>164,230</u> |
| Total | <u><u>\$208,365</u></u> |

7. CONTRACT WITH THE FAIRFIELD COUNTY JUVENILE COURT AND THE FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

LFAS contracts with the Fairfield County Juvenile Court for use of their facility and for personnel services to supervise the students of LFAS. The Fairfield County Juvenile Court is entitled to seventy percent of the base formula funding, adjusted by the Sponsor's cost of doing business factor, received by LFAS through the State foundation.

LFAS signed a contract with the Fairfield County Educational Service Center for services of an Occupational Work Experience teacher.

8. CONTINGENCIES

A. Grants

LFAS received financial assistance from federal and 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of LFAS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of LFAS at June 30, 2005.

**LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL
FAIRFIELD COUNTY**

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

8. CONTINGENCIES (Continued)

B. Litigation

A suit 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's Constitution and State laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on LFAS is not presently determinable.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LFAS. These reviews are conducted to ensure LFAS is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. The review for the period ended June 30, 2005, is currently not available.

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Auditor of State Betty Montgomery

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

Lancaster-Fairfield Alternative School
Fairfield County
111 South Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the basic financial statements of the Lancaster-Fairfield Alternative School, Fairfield County, Ohio (LFAS) as of and for the period ended June 30, 2005, and have issued our report thereon dated January 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LFAS's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to LFAS's management dated January 13, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the LFAS's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to LFAS's management dated January 13, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

January 13, 2006



**Auditor of State
Betty Montgomery**

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LANCASTER-FAIRFIELD ALTERNATIVE SCHOOL

FAIRFIELD 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
FEBRUARY 28, 2006**