GLASS CITY ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

GLASS CITY ACADEMY
LUCAS COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Glass City Academy
Lucas County
2275 Collingwood Blvd.
Toledo, Ohio 43620-1148

To the Governing Board:

We have audited the accompanying basic financial statements of the Glass City Academy, Lucas County (the Academy), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy as of June 30, 2005, and the respective changes in financial position and cash flows thereof 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 March 7, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

March 7, 2006

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

The discussion and analysis of the Glass City Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets increased by $984,281.
- Total assets increased by $1,136,972. This increase was primarily due to revenues exceeding expenses by approximately $984,000.
- Total liabilities increased by $152,691. Accounts Payable increased by $111,356 and Intergovernmental Payables increased by $39,473.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Reporting the Academy as a Whole

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

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

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

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

(Table 1)
Net Assets

	2005	2004
Assets		
Current Assets	$ 2,109,935	$ 1,028,503
Capital Assets, Net	117,140	61,600
Total Assets	2,227,075	1,090,103
Liabilities		
Current Liabilities	206,628	53,937
Total Liabilities	206,628	53,937
Net Assets		
Invested in Capital Assets	117,140	61,600
Unrestricted	1,903,307	974,566
Total Net Assets	$ 2,020,447	$ 1,036,166

Total assets increased by $1,136,972. This increase was primarily due to revenues exceeding expenses by approximately $984,000. Equity in pooled cash and cash equivalents increased by $1,007,253 from 2004. Intergovernmental Receivables increased by $69,162. This increase was due to the timing of the receipt of some grants. Capital Assets, net of depreciation increased by $55,540.

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2005	2004
Operating Revenues:		
Foundation Payments	$ 1,501,135	$ 1,155,923
Disadvantaged Pupil Impact Aid	14,925	27,625
Special Education	57,866	40,024
Food Services	2,666	-
Other	527	500
Non-Operating Revenues:		
Federal and State Grants	286,048	305,001
Interest	17,543	840
Contributions and Donations	-	2,075
Total Revenues	1,880,710	1,531,988

	2005	2004
Operating Expenses		
Salaries	401,226	260,585
Fringe Benefits	108,275	80,703
Purchased Services	214,858	81,110
Materials and Supplies	49,301	11,618
Depreciation	11,771	15,400
Capital Outlay	58,866	-
Other Expenses	52,132	46,406
Total Expenses	896,429	495,822
Increase in Net Assets	$ 984,281	$ 1,036,166

There was an increase in revenues of $348,722 and an increase in expenses of $400,607 from 2004. Of the increase in revenues, the foundation payments increased by $345,212. Community Schools receive no support from tax revenues.

The expense for salaries increased by $140,641 and the expense for fringe benefits increased by $27,572 from 2004. This was primarily due to an increase in contracted salary amounts during fiscal year 2005. Purchased services expense increased by $133,748 from 2004. These increases were primarily due to an increase in the building lease, contracting for security guards, and an increase in grant expenditures.

Capital Assets

At the end of fiscal year 2005, the Academy had $117,140, invested in furniture and equipment, which represented an increase of $55,540 from 2004. Table 3 shows fiscal year 2005 and 2004:

(Table 3)
Capital Assets at June 30, 2005
(Net of Depreciation)

	2005	2004
Furniture, Fixtures, and Equipment	$ 117,140	$ 61,600

For more information on capital assets see Note 4 to the basic financial statements.

Current Financial Issues

The Glass City Academy was formed in 2003. The Academy's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2004-2005 school year, there were approximately 232 students enrolled in the Academy. The Academy receives its finances mostly from state aide. Per pupil aide for fiscal year 2005 amounted to $5,058 per student.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Ms. Jan Pershing, Chief Administrator at Glass City Academy, 2275 Collingwood Blvd., Toledo, Ohio 43620-1148 or e-mail at gca_jp@nwoca.org.

GLASS CITY ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$ 1,933,389
Accounts Receivable	75
Intergovernmental Receivables	169,494
Prepaid Items	6,977
Total Current Assets	2,109,935
Non-Current Assets:	
Capital Assets:	
Depreciable Capital Assets, Net of Related Debt	117,140
Total Non-Current Assets	117,140
Total Assets	2,227,075
Liabilities	
Current Liabilities:	
Accounts Payable	116,481
Accrued Wages and Benefits	40,702
Intergovernmental Payable	49,445
Total Current Liabilities	206,628
Net Assets	
Invested in Capital Assets	117,140
Unrestricted	1,903,307
Total Net Assets	$ 2,020,447

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GLASS CITY ACADEMY
LUCAS COUNTY

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

	Enterprise
Operating Revenues	
Foundation Payments	$ 1,501,135
Disadvantaged Pupil Impact Aid	14,925
Special Education	57,866
Food Services	2,666
Other Operating Revenues	527
Total Operating Revenues	1,577,119
Operating Expenses	
Salaries	401,226
Fringe Benefits	108,275
Purchased Services	214,858
Materials and Supplies	49,301
Depreciation	11,771
Capital Outlay	58,866
Other Operating Expenses	52,132
Total Operating Expenses	896,429
Operating Income	680,690
Non-Operating Revenues	
Operating Grants - State	7,925
Operating Grants - Federal	278,123
Interest	17,543
Total Non-Operating Revenues	303,591
Change in Net Assets	984,281
Net Assets Beginning of Year	1,036,166
Net Assets End of Year	$ 2,020,447

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GLASS CITY ACADEMY
LUCAS COUNTY

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:	
Cash Received from State of Ohio	1,634,420
Cash Received from Classroom Materials & Fees	2,591
Cash Received from Other Operating Sources	527
Cash Payments to Suppliers for Goods and Services	(281,977)
Cash Payments to Employees for Services	(398,558)
Cash Payments for Employee Benefits	(97,667)
Net Cash Used for Operating Activities	859,336
Cash Flows from Noncapital Financing Activities:	
Operating Grants Received - State	7,925
Operating Grants Received - Federal	181,306
Net Cash Provided by Noncapital Financing Activities	189,231
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(58,857)
Net Cash Used for Capital and Related Financing Activities	(58,857)
Cash Flows from Investing Activities:	
Interest	17,543
Net Cash Provided by Investing Activities	17,543
Net Increase in Cash and Cash Equivalents	1,007,253
Cash and Cash Equivalents at Beginning of Year	926,136
Cash and Cash Equivalents at End of Year	$ 1,933,389

(Continued)

GLASS CITY ACADEMY
LUCAS COUNTY

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

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Income	$	680,690
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation		11,771
Changes in Assets and Liabilities:		
Increase in Accounts Receivable		(75)
Decrease in Intergovernmental Receivable		27,625
Increase in Prepaid Items		(4,912)
Increase in Accounts Payable		102,902
Increase in Accrued Wages and Benefits		1,862
Increase in Intergovernmental Payable		39,473
Total Adjustments		178,646
Net Cash Used for Operating Activities	$	859,336

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Glass City Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to provide a second chance for dropout and highly at-risk youth to complete high school, learn readily marketable work skills, and explore post-secondary training options. The underlying philosophy of the Academy is that all students have a right to a challenging high school education with a focus on the future, provided in a manner that addresses individual academic, social, and behavioral needs. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing September 8, 2003. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy (see note 11).

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 include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 1 non-certified and 6 certificated full time teaching personnel who provide services to 232 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

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

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy 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.

E. 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 bank 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 the presentation on the statement of net assets, investments with original maturities of three months or less, at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During fiscal year 2005, investments were limited to business sweep accounts. The business sweep accounts are reported at cost.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded $300,000 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of two thousand dollars. The Academy 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.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Furniture, Fixtures and Equipment	5 years

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has no debt.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

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

K. 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.

NOTE 3 - DEPOSITS

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. Protection of the Academy's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution.

At fiscal year end, the carrying amount of the Academy's deposits was $1,454,314. $100,000 of the Academy's deposits was insured by Federal depository insurance. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2005, $1,365,305 of the Academy's bank balance of $1,465,305 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the Academy's investments were limited to a Business Sweep Account (repurchase agreement) totaling $479,075 (reported amount and fair value), all of which was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy has no investment policy dealing with investment custodial credit risk.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 77,000	$ 67,311	$ -	$ 144,311
Total Capital Assets Being Depreciated	77,000	67,311	-	144,311
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(15,400)	(11,771)	-	(27,171)
Total Accumulated Depreciation	(15,400)	(11,771)	-	(27,171)
Total Capital Assets Being Depreciated, Net	61,600	55,540	-	117,140
Business-Type Activity Capital Assets, Net	$ 61,600	$ 55,540	$ -	$ 117,140

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts and intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

	Amounts
Accounts	$ 75
Federal Subgrant '05	169,494
Total All Intergovernmental Receivables	$ 169,569

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Academy contracted with Cincinnati Insurance Company for general liability, property, and Director and Officer errors and omissions insurance.

NOTE 6 - RISK MANAGEMENT – (Continued)

Coverages are as follows:

Commercial General Liability per occurrence	$1,000,000
Commercial General Liability aggregate	1,000,000
Director and Officer Liability per occurrence ($10,000 Deductible)	1,000,000
Director and Officer Liability aggregate	1,000,000
Commercial Property Liability:	
Business Property	300,000
Personal Property	30,000

The Academy owns no property, but leases a facility located at 2275 Collingwood Blvd., Toledo, Ohio. (See note 13)

B. Workers' Compensation

The Academy pays the State Workers' 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.

NOTE 7 – EMPLOYEE BENEFITS

Insurance Benefits

The Academy contracted through the Lucas County Educational Service Center to provide medical, dental, and vision insurance to its full-time employees who work 35 or more hours per week.

NOTE 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. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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, or by calling (614)222-5853.

NOTE 8 - DEFINED BENEFIT PENSION PLANS – (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of 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 statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005 and 2004, were $8,780 and $3,403, respectively; 62.41 percent has been contributed for fiscal year 2005, and 100 percent for fiscal year 2004.

B. State Teachers Retirement System of Ohio

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 percent 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.

NOTE 8 - DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent 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 to the DB Plan for the fiscal years ended June 30, 2005 and 2004, were $45,518 and $24,722, respectively; 85.88 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal year 2004.

NOTE 9 - POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $3,295 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was $3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS and 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the Academy paid $4,279 to fund health care benefits, including the surcharge.

NOTE 9 - POSTEMPLOYMENT BENEFITS – (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 10 - CONTINGENCIES

A. Grants

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

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. ODE has conducted a review of the Academy's 2005 student enrollment data and FTE calculations. For fiscal year 2005, the results of this review resulted in a decrease of $32,869. This amount was recorded as an intergovernmental payable on the financial statements. This amount will be deducted from the Academy's future foundation payments.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

NOTE 11 - FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the Academy from the State of Ohio. The amount paid to the Fiscal Agent for fiscal year 2005 totaled $34,809, and a liability in the amount of $5,425 was accrued for the year ended June 30, 2005.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of the Academy:

A. Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor's or any other Community School's funds;

B. Maintain all books and accounts of all funds of the Academy;

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

D. Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;

E. Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other Community School; and

F. Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrator of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 12 – PURCHASED SERVICES

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

Professional and Technical Services	$	151,889
Property Services		41,967
Travel Mileage/Meeting Expense		9,876
Communications		10,286
Tuition		840
Total Purchased Services	$	214,858

NOTE 13 - OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into a lease for the period September 1, 2004 through August 31, 2005, with the Sponsor to lease space to house the Academy. Payments made totaled $47,500 for the year ended June 30, 2005. In August 2005, the Academy renewed the lease for an additional one-year term at a cost of $53,550 payable in 12 monthly payments.

NOTE 14 – TAX EXEMPT STATUS

The Academy obtained approval for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code on October 20, 2005.

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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*

Glass City Academy
Lucas County
2275 Collingwood Boulevard
Toledo, Ohio 43620-1148

To the Governing Board:

We have audited the basic financial statements of the Glass City Academy, Lucas County (the Academy) as of and for the year ended June 30, 2005, which comprise the Academy's basic financial statements and have issued our report thereon, dated March 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. 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.

Compliance and Other Matters

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

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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

Betty Montgomery
Auditor of State

March 7, 2006

Auditor of State
Betty Montgomery

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GLASS CITY ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 23, 2006