GLASS CITY ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

GLASS CITY ACADEMY
LUCAS COUNTY

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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, 2006, 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 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 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, 2006, and the changes in its financial position and cash flows 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 April 6, 2007, 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.

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

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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 6, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2006 UNAUDITED

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, 2006. 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 $417,197.
- Total assets increased by $285,094.
- Total liabilities decreased by $132,103.

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 2006 and fiscal year 2005:

(Table 1)
Net Assets

	2006	2005
Assets		
Current Assets	$ 2,329,937	$ 2,109,935
Capital Assets, Net	182,232	117,140
Total Assets	2,512,169	2,227,075
Liabilities		
Current Liabilities	74,525	206,628
Total Liabilities	74,525	206,628
Net Assets		
Invested in Capital Assets	182,232	117,140
Unrestricted	2,255,412	1,903,307
Total Net Assets	$ 2,437,644	$ 2,020,447

Total assets increased by $285,094, which represents a 12.80 percent increase from fiscal year 2005. This increase is primarily the result of revenues exceeding expenses by $417,197. While cash and cash equivalents increased by $394,982, total receivables decreased by $169,569, which was due to the timing of receipts of some grants. Total liabilities decreased by $132,103, which represents a 63.93 percent decrease from fiscal year 2005. This decrease in liabilities resulted primarily from the Academy accruing a substantial amount related to installation costs during the prior year.

Table 2 shows the changes in net assets for fiscal year 2006 and fiscal year 2005, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2006	2005
Operating Revenues:		
Foundation Payments	$ 1,109,441	$ 1,501,135
Poverty-Based Assistance	23,042	
Disadvantaged Pupil Impact Aid		14,925
Special Education	61,522	57,866
Classroom Fees	1,142	
Food Services		2,666
Other	3,425	527
Total Operating Revenues	1,198,572	1,577,119
Operating Expenses:		
Salaries	502,089	401,226
Fringe Benefits	116,466	108,275
Purchased Services	153,830	214,858
Materials and Supplies	41,212	49,301
Depreciation Expense	52,350	11,771
Capital Outlay		58,866
Other Operating Expense	39,513	52,132
Total Operating Expenses	905,460	896,429
Non-Operating Revenues:		
Operating Grants - Federal	21,877	278,123
Operating Grants - State	31,852	7,925
Interest	70,356	17,543
Total Non-Operating Revenues	124,085	303,591
Increase in Net Assets	$ 417,197	$ 984,281

The Academy had total revenues of $1,322,657, and total expenses of $905,460. The change in net assets for the fiscal year was an increase of $417,197.

State Foundation Basic Aid, Poverty-Based Assistance, and Special Education, as a whole, are the primary support for the Academy, representing 99.62 percent of the operating revenue. Salaries and Fringe Benefits comprise 68.31 percent of operating expenses.

There was a decrease in revenues of $558,053 and an increase in expenses of $9,031. The decrease in revenues was primarily the result of lower Foundation Basic Aid payments, which resulted from lower enrollment, and the Academy becoming ineligible for certain Federal Grants that were related to its first few years of operation. Higher expenses were attributable to the hiring of two new full-time teachers during the year.

Capital Assets

At the end of fiscal year 2006, the Academy had $182,232 (net of $79,521 in accumulated depreciation) invested in furniture and equipment. Table 3 shows fiscal year 2006 balances compared to fiscal year 2005:

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

	2006	2005
Furniture, Fixtures, and Equipment	$ 182,232	$ 117,140

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 2005-2006 school year, there were approximately 193 students enrolled in the Academy. The Academy receives its finances mostly from state aide. Per pupil aide for fiscal year 2006 amounted to $5,283 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, 2006

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 2,328,371
Prepaid Items	1,566
Total Current Assets	2,329,937
Non-Current Assets:	
Capital Assets:	
Depreciable Capital Assets, Net of Related Debt	182,232
Total Non-Current Assets	182,232
Total Assets	2,512,169
Liabilities	
Current Liabilities:	
Accounts Payable	8,637
Accrued Wages and Benefits	50,980
Intergovernmental Payable	14,908
Total Current Liabilities	74,525
Net Assets	
Invested in Capital Assets	182,232
Unrestricted	2,255,412
Total Net Assets	$ 2,437,644

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, 2006

	Enterprise
Operating Revenues	
Foundation Payments	$ 1,109,441
Poverty-Based Assistance	23,042
Special Education	61,522
Classroom Fees	1,142
Other Operating Revenues	3,425
Total Operating Revenues	1,198,572
Operating Expenses	
Salaries	502,089
Fringe Benefits	116,466
Purchased Services	153,830
Materials and Supplies	41,212
Depreciation	52,350
Other Operating Expenses	39,513
Total Operating Expenses	905,460
Operating Income	293,112
Non-Operating Revenues	
Operating Grants - State	31,852
Operating Grants - Federal	21,877
Interest	70,356
Total Non-Operating Revenues	124,085
Change in Net Assets	417,197
Net Assets Beginning of Year	2,020,447
Net Assets End of Year	$ 2,437,644

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, 2006

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:	
Cash Received from State of Ohio	1,185,397
Cash Received from Classroom Materials & Fees	1,142
Cash Received from Other Operating Sources	3,500
Cash Payments to Suppliers for Goods and Services	(325,224)
Cash Payments to Employees for Services	(492,527)
Cash Payments for Employee Benefits	(123,612)
Net Cash Provided by Operating Activities	248,676
Cash Flows from Noncapital Financing Activities:	
Operating Grants Received - State	191,371
Operating Grants Received - Federal	10,475
Net Cash Provided by Noncapital Financing Activities	201,846
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(125,896)
Net Cash Used for Capital and Related Financing Activities	(125,896)
Cash Flows from Investing Activities:	
Interest	70,356
Net Cash Provided by Investing Activities	70,356
Net Increase in Cash and Cash Equivalents	394,982
Cash and Cash Equivalents at Beginning of Year	1,933,389
Cash and Cash Equivalents at End of Year	$ 2,328,371

(Continued)

GLASS CITY ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$ 293,112
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	52,350
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	75
Decrease in Intergovernmental Receivable	21,377
Decrease in Prepaid Items	5,411
(Decrease) in Accounts Payable	(99,390)
Increase in Accrued Wages and Benefits	10,278
(Decrease) in Intergovernmental Payable	(34,537)
Total Adjustments	(44,436)
Net Cash Provided By Operating Activities	$ 248,676

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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 is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of actions or series of events that have occurred that might adversely affect the Academy's tax-exempt status. 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 10).

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 8 certificated full time teaching personnel who provide services to 193 students.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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

The Academy is required to submit a five-year budget forecast with the Ohio Department of Education, c/o Superintendent of Public Instruction.

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 accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For purposes of the statement of cash flows and 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.

During the year ended June 30, 2006, the Academy had only deposits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Poverty-Based Assistance 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.

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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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.

3. DEPOSITS

At fiscal year end June 30, 2006, the carrying amount of the Academy's bank balance was $2,328,371. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, $2,229,829 of the bank balance of $2,329,829 was exposed to custodial risk as discussed below, while $100,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 144,311	$ 119,304	$ 1,862	$ 261,753
Total Capital Assets Being Depreciated	144,311	119,304	1,862	261,753
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(27,171)	(52,350)		(79,521)
Total Accumulated Depreciation	(27,171)	(52,350)		(79,521)
Total Capital Assets Being Depreciated, Net	117,140	66,954	1,862	182,232
Business-Type Activity Capital Assets, Net	$ 117,140	$ 66,954	$ 1,862	$ 182,232

5. 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 2006, the Academy contracted with Cincinnati Insurance Company for general liability, property, and Director and Officer errors and omissions insurance.

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 12)

5. RISK MANAGEMENT – (Continued)

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.

6. 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.

7. 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 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 43215-3746, by calling (800) 878-5853, or by visiting the SERS website at ohsers.org.

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 School District 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 2006, 10.58 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, 2006, 2005, and 2004, were $6,657, $8,780, and $3,403 respectively; 100.0 percent has been contributed for fiscal years 2006, 2005, and 2004.

7. DEFINED BENEFIT PENSION PLANS – (Continued)

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, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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 divided by 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 of 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, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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.

7. DEFINED BENEFIT PENSION PLANS – (Continued)

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were $51,530, $45,518, and $24,722, respectively; 82.2 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were $52,536, made by the Academy, and $10,868 made by the plan members.

8. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $3,753 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year, equaled $4,596.

8. 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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were $178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

9. 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, 2006.

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 2006 student enrollment data and FTE calculations. For the fiscal year 2006, the results of this review resulted in a decrease of $2,884 that is reflected as an intergovernmental payable on the financial statements.

C. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Glass City Academy is not presently determinable.

10. 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 2006 totaled $26,990, and a liability in the amount of $774 was accrued for the year ended June 30, 2006.

10. FISCAL AGENT – (Continued)

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.

11. PURCHASED SERVICES

For the year ended June 30, 2006, purchased service expenses were payments for services rendered, as follows:

Professional and Technical Services	$	74,526
Property Services		61,234
Travel Mileage/Meeting Expense		5,166
Communications		12,904
Total Purchased Services	$	153,830

12. OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into a lease for the period September 1, 2005, through August 31, 2006, with the Sponsor to lease space to house the Academy. Payments made totaled $48,663 for the year ended June 30, 2006. In September 2006, the Academy renewed the lease for an additional one-year term at a cost of $56,228, payable in 12 monthly payments.

Mary Taylor, CPA
Auditor of State

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 Blvd.
Toledo, Ohio 43620-1148

To the Governing Board:

We have audited the financial statements of Glass City Academy, Lucas County (the Academy) as of and for the year ended June 30, 2006, and have issued our report thereon dated April 6, 2007. 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 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, Governing Board, and Sponsor. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 6, 2007

Mary Taylor, CPA
Auditor of State

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
MAY 10, 2007