



**Auditor of State  
Betty Montgomery**



**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Englewood Peace Academy  
Lucas County  
1120 Horace Street  
Toledo, Ohio 43606-4737

To the Board of Education:

We have audited the accompanying basic financial statements of Englewood Peace Academy, Lucas County, (the Academy), as of and for the year ended June 30, 2004, 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 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 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 Englewood Peace Academy, Lucas County, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2005 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.

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.

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

**Betty Montgomery**  
Auditor of State

May 26, 2005

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The discussion and analysis of Englewood Peace Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and 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**

- Total Net Assets were \$534,573.
- Total Revenue was \$1,740,385.
- Total Expenses were \$1,615,343.

**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 are organized so the reader can understand Englewood Peace Academy as a financial whole, an entire operating entity.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets provide information about the Academy, presenting an aggregate view of the Academy's finances. In the case of Englewood Peace Academy, there is only one fund presented.

**Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets**

The view of the Academy as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" This Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets answer this question. These statements include all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses, regardless of when the cash is received or paid.

These two statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not.

Table 1 provides a summary of the Academy's net assets for fiscal years 2004 and 2003:

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

Table 1  
Statement of Net Assets

	2004	2003
<b>Assets</b>		
Current Assets	\$ 674,509	\$ 568,620
Capital Assets, Net	43,880	41,200
<i>Total Assets</i>	<u>718,389</u>	<u>609,820</u>
<b>Liabilities</b>		
Current Liabilities	160,724	181,651
Non-Current Liabilities	23,092	18,638
<i>Total Liabilities</i>	<u>183,816</u>	<u>200,289</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	20,789	5,216
Unrestricted	513,784	404,315
<i>Total Net Assets</i>	<u>\$ 534,573</u>	<u>\$ 409,531</u>

Total assets increased by \$108,569, which represents a 17.8 percent increase from 2003. While cash and cash equivalents increased by \$116,341, total receivables decreased by \$11,074. Total liabilities decreased by \$16,473, which represents an 8.2 percent decrease from 2003. The Academy's net assets increased by \$125,042, represents a 30.5 percent increase from 2003.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding. Table 2 also shows the changes in net assets for fiscal year 2004. For comparison purposes, data from June 30, 2003, is reported to the right of the current year's figures.

(Table 2)  
Change in Net Assets

	2004	2003
<b>Operating Revenues:</b>		
Foundation Payments	\$ 1,156,943	\$ 1,164,368
Disadvantaged Pupil Impact Aid	183,319	181,604
Special Education	30,929	29,901
Food Services	20,747	21,185
Classroom Fees	19,273	17,368
Other Operating Revenues	27,493	10,096
<i>Total Revenues</i>	<u>1,438,704</u>	<u>1,424,522</u>

(Continued)

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

(Table 2) (Continued)  
Change in Net Assets

	2004	2003
<b>Operating Expenses</b>		
Salaries	852,447	707,474
Fringe Benefits	270,919	191,398
Purchased Services	299,243	258,223
Materials and Supplies	91,454	128,864
Cost of Sales	48,107	42,913
Depreciation	24,603	19,146
Other Expenses	26,844	15,043
<i>Total Expenses</i>	<u>1,613,617</u>	<u>1,363,061</u>
<b>Non-Operating Revenues and (Expenses)</b>		
Federal Donated Commodities	16,263	10,025
Operating Grants - Federal	258,633	182,527
Operating Grants - State	22,428	155,287
Contributions and Donations	-	120
Interest	4,357	2,514
Interest and Fiscal Charges	(1,726)	(2,403)
<b>Total Non-Operating Revenues and (Expenses)</b>	<u>299,955</u>	<u>348,070</u>
<i>Increase / (Decrease) in Net Assets</i>	<u>\$ 125,042</u>	<u>\$ 409,531</u>

State Foundation Payments, Disadvantaged Pupil Impact Aid, and Special Education, as a whole, are the primary support for the Academy, representing 95.3 percent of operating revenue. Salaries and Fringe Benefits comprise 69.6 percent of operating expenses. Interest expense was \$1,726, representing 0.1 percent of total expenses, and is attributable to the capital lease.

The Academy had total revenues of \$1,704,385, and total expenses of \$1,615,343. The change in net assets for the year was an increase of \$125,042. This increase indicates the Academy is meeting its obligations as a whole.

**Capital Assets**

At the end of fiscal year 2004, the Academy had \$43,880 (net of \$43,748 in accumulated depreciation) invested in furniture and equipment. Table 3 shows fiscal year 2004 balances compared to fiscal year 2003:

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

Capital Assets at June 30  
(Net of Depreciation)

	2004	2003
Furniture and Equipment	\$ 26,190	\$ 5,819
Capital Lease - Computers	17,690	35,381
Totals	<u>\$ 43,880</u>	<u>\$ 41,200</u>

Depreciation was smaller than acquisitions this year by \$2,681. The increase in furniture and equipment is a result of Academy purchases in the amount of \$27,283.

For more information on capital assets, see Note 6 to the basic financial statements.

**Capital Lease**

At June 30, 2004, the Academy had \$23,092 in capital leases payable, which is reported as a non-current liability due within one year. For more information on the capital lease, see Note 12 to the basic financial statements.

**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 Mr. Mark Sholl at Englewood Peace Academy, 1120 Horace Street, Toledo, OH 43606, or e-mail at [epa\\_ms@nwoca.org](mailto:epa_ms@nwoca.org).

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

**Assets**

Current Assets

Equity in Pooled Cash and Cash Equivalents	\$ 538,483
Accounts Receivable	667
Intergovernmental Receivable	122,275
Prepaid Items	12,432
Inventory Held for Resale	652
<i>Total Current Assets</i>	<u>674,509</u>

Non-Current Assets

Capital Assets:

Depreciable Capital Assets, Net	43,880
<i>Total Non-Current Assets</i>	<u>43,880</u>

<i>Total Assets</i>	<u>718,389</u>
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**Liabilities**

Current Liabilities

Accounts Payable	9,375
Accrued Wages and Benefits	76,458
Intergovernmental Payable	74,554
Deferred Revenue	337
<i>Total Current Liabilities</i>	<u>160,724</u>

Non-Current Liabilities

Due Within One Year	23,092
<i>Total Non-Current Liabilities</i>	<u>23,092</u>

<i>Total Liabilities</i>	<u>183,816</u>
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**Net Assets**

Invested in Capital Assets, Net of Related Debt	20,789
Unrestricted	513,784
<i>Total Net Assets</i>	<u>\$ 534,573</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Enterprise
<b>Operating Revenues</b>	
Foundation Payments	\$ 1,156,943
Disadvantaged Pupil Impact Aid	183,319
Special Education	30,929
Classroom Fees	19,273
Food Services	20,747
Other Revenues	27,493
<i>Total Operating Revenues</i>	1,438,704
<b>Operating Expenses</b>	
Salaries	852,447
Fringe Benefits	270,919
Purchased Services	299,243
Materials and Supplies	91,454
Cost of Sales	48,107
Depreciation	24,603
Other	26,844
<i>Total Operating Expenses</i>	1,613,617
<i>Operating Loss</i>	(174,913)
<b>Non-Operating Revenues and Expenses</b>	
Federal Donated Commodities	16,263
Operating Grants- Federal	258,633
Operating Grants- State	22,428
Interest	4,357
Interest and Fiscal Charges	(1,726)
<i>Total Non-Operating Revenues and Expenses</i>	299,955
<i>Change in Net Assets</i>	125,042
Net Assets Beginning of Year	409,531
<i>Net Assets End of Year</i>	\$ 534,573

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**Increase (Decrease) in Cash and Cash Equivalents**

<u>Cash Flows from Operating Activities</u>	
Cash Received from State of Ohio	\$ 1,355,655
Cash Received from Classroom Fees	20,359
Cash Received from Food Services	20,908
Cash Received from Other Operating Revenues	27,231
Cash Payments to Suppliers for Goods and Services	(418,518)
Cash Payments to Employees for Services	(895,776)
Cash Payments for Employee Benefits	(225,806)
Cash Payments for Other Operating Expenses	(26,889)
	(142,836)
 <u>Cash Flows from Noncapital Financing Activities</u>	
Federal Grants Received	274,293
State Grants Received	22,428
	296,721
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	(27,283)
Payment for Principal Payments	(12,892)
Payments for Interest	(1,726)
	(41,901)
 <u>Cash Flows from Investing Activities</u>	
Interest	4,357
	4,357
 <i>Net Increase in Cash and Cash Equivalents</i>	
	116,341
 Cash and Cash Equivalents at Beginning of Year	
	422,142
 <i>Cash and Cash Equivalents at End of Year</i>	
	\$ 538,483

(Continued)

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**Reconciliation of Operating Loss to Net  
Cash Used for Operating Activities**

Operating Loss \$ (174,913)

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

Depreciation	24,603
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	985
Increase in Intergovernmental Receivable	(5,571)
Increase in Prepaid Items	(545)
Increase in Inventory Held for Resale	(77)
Donated Commodities Used During the Year	16,263
Increase in Accounts Payable	6,555
Decrease in Accrued Wages Payable	(35,084)
Increase in Intergovernmental Payable	24,986
Decrease in Deferred Revenue	(38)

*Total Adjustments* 32,077

*Net Cash Used for Operating Activities* \$ (142,836)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Englewood Peace 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 action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's objective is to provide quality education marked by strong values, high academic standards, and consistent discipline. Respect for self and others, honesty, friendliness, cultural pride, and collaboration describe the spirit of Englewood Peace Academy. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years, commencing July 2002. 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 13).

The Academy operates under the direction of a ten-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 11 non-certified and 16 certificated full-time teaching personnel who provide services to 194 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. The Academy uses enterprise accounting to track and report on its financial activities. 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 reflects how the Academy finances and meets its cash flow needs.

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(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.

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

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are 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 Investments**

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 for 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 fiscal year 2004, investments were limited to repurchase agreements and STAR Ohio. Repurchase agreements are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

**F. Capital Assets and Depreciation**

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the dates received. The Academy maintains a capitalization threshold of \$500. The Academy does not possess any infrastructure. Improvements are

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Equipment	5 years
Capital Lease - Computers	3 years

**G. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

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 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.

**H. Prepaid Items**

Prepayments represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the Statement of Net Assets, using the allocation method, which amortizes their cost over the periods benefiting from the advance payment.

**I. Inventory**

Inventory is stated at the lower of cost or market, and cost is determined on a first-in/first-out (FIFO) basis. Inventory consists of donated and purchased food and is expensed when used.

**J. 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or regulations of other governments.

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(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.

**L. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transactions occurred during fiscal year 2004.

**M. Operating Revenues and Expenses**

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

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES**

For 2004, the Academy has implemented GASB Statement No. 34, "*Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*"; GASB No. 37 "*Basic Financial Statements for State and Local Governments: Omnibus*"; GASB No. 38, "*Certain financial Statement Note Disclosures*"; and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*" At June 30, 2004, there was no effect on the financial statements as a result of implementing GASB 34, 37, 38, and Interpretation No. 6.

GASB 34 creates new basic financial statements for reporting on the Academy's financial activities. The financial statements are now prepared on an accrual basis of accounting. The beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**NOTE 4 – DEPOSITS AND INVESTMENTS**

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

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

At June 30, 2004, the carrying amount of the Academy's deposits was \$14,596 and the bank balance was \$44,985. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at year end. Category 1 includes investments that are insured or registered for which the securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name. The Academy's investments total \$523,887, of which \$169,860 (carrying amount and fair value) is maintained in a Ready Resource Savings Account (repurchase agreement) included in Category 2, and \$354,027 (fair value) which is maintained in a STAR Ohio account, which is not categorized because it is not evidenced by securities that exist in physical or book entry form.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2004, consisted of accounts and intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of receivables follows:

<u>Receivables</u>	<u>Amount</u>
Accounts	\$ 667
<u>Intergovernmental</u>	
Foundation Payment Receivable	5,571
Idea-B '04 - Special Education	20,367
Title I '04 - Targeted Assistance	65,244
Title IVA '04 - Safe & Drug Free	57
Title IIA '04	11,524
Title IID '04 - Technology	6,106
Federal Reimbursements	13,406
<i>Total Intergovernmental Receivables</i>	<u>122,275</u>
<i>Total Receivables</i>	<u>\$ 122,942</u>

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Enterprise Activity				
Furniture and Equipment	\$ 7,274	\$ 27,283	\$ -	\$ 34,557
Capital Leases	53,072	-	-	53,072
Total Capital Assets				
Being Depreciated	<u>60,346</u>	<u>27,283</u>	<u>-</u>	<u>87,629</u>

(Continued)

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
(Continued)				
Less Accumulated Depreciation:				
Furniture and Equipment	(1,455)	(6,912)	-	(8,367)
Capital Leases	(17,691)	(17,691)	-	(35,382)
<i>Total Accumulated Depreciation</i>	(19,146)	(24,603)	-	(43,749)
<i>Total Capital Assets</i>				
<i>Being Depreciated, Net</i>	41,200	2,680	-	43,880
<i>Enterprise Activity</i>				
<i>Capital Assets, Net</i>	\$ 41,200	\$ 2,680	\$ -	\$ 43,880

**NOTE 7 - 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. For the year ended 2004, the Academy contracted with the Cincinnati Insurance Company and the Federal Insurance Company with the following insurance coverage:

Commercial General Liability per Occurrence	\$ 1,000,000
Commercial General Liability Aggregate	2,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Commercial Umbrella Liability per Occurrence	4,000,000
Commercial Umbrella Liability Aggregate	4,000,000
Commercial Property	100,000
Electronic Data Processing (\$250 Deductible)	60,000
Employer's Liability Bodily Injury per Employee	1,000,000
Employer's Liability Aggregate	1,000,000
Educator's Professional Liability per Occurrence (\$10,000 Deductible)	1,000,000
Educator's Professional Liability Aggregate	1,000,000

The Academy owns no property, but leases a facility located at 1120 Horace Street, Toledo, Ohio. (See Note 11.)

**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.

**C. EMPLOYEE BENEFITS**

The Academy has contracted through an independent carrier to provide medical, dental, and vision insurance to its full-time employees who work 30 or more hours per week. The Academy pays the full amount for single coverage of the monthly premiums for all selected coverage.

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**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 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 or by calling (614) 222-5853.

For fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 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, 2004 and 2003 were \$27,083 and \$16,875, respectively; 82.9 percent has been paid for the year ended 2004, and 100 percent has been paid for 2003. The unpaid contribution for the year ended 2004, in the amount of \$4,631 is recorded as a liability.

**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

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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, 2004, 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 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.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004 and 2003 were \$74,466 and \$66,370, respectively; 69.50 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003. The unpaid contribution for the year ended 2004, in the amount of \$22,714 is recorded as a liability.

**NOTE 9 - 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 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 benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$5,501 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$25,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$56,504.

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(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, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NOTE 10 – STATE SCHOOL FUNDING DECISION**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...."

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**NOTE 11 – OPERATING LEASE**

The Academy entered into an operating lease agreement on July 1, 2002, which terminates June 30, 2005, for the Academy's facility. This agreement is, in substance, a facility rental agreement, and the facility lease payments for the year totaled \$126,500. Future payments due under this lease are as follows:

June 30	Payments
2005	\$ 115,500
Total minimum lease payments	\$115,500

**NOTE 12 – CAPITALIZED LEASE – LESSEE DISCLOSURE**

The Academy entered into a capital lease in January 2003 for computer equipment and accessories. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease was recorded at the present value of the future minimum lease payments as of the inception date. The capital lease balance at the beginning of the period (July 1, 2003) was \$35,984. Payments made during fiscal year 2004 totaled \$14,618, and there were no other capital lease additions or deletions.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

Year Ending June 30,	
2005	\$ 24,363
Less: Amount representing Interest	(1,271)
Present Value of Minimum Lease Payments	\$ 23,092

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 13 – FISCAL AGENT**

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to 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. A total contract payment of \$28,436 was paid during the fiscal year, and a liability in the amount of \$3,158 was accrued as a liability for the year ended June 30, 2004.

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

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- 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
- 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 Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

**NOTE 14 – PURCHASED SERVICES**

<b><u>PURCHASED SERVICES</u></b>	
Professional and Technical Services	\$ 59,882
Property Services	142,042
Travel Mileage/Meeting Expense	16,086
Communications	4,401
Utilities	45,507
Contracted Craft or Trade Service	2,889
LCESC Accounting Fees (See Note 13)	28,436
<i>Total Purchased Services</i>	<u><u>\$ 299,243</u></u>

**ENGLEWOOD PEACE ACADEMY  
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 15 – 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, 2004.

**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 to the State, upon which state foundation funding is calculated. For fiscal year 2004, the review was completed in January 2005, and the review resulted in an increase of \$5,571, which is recorded as an intergovernmental receivable on the Statement of Net Assets.

**C. 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 Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the state public educational system, and the matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy, is not presently determinable.

**NOTE 16 – RELATED PARTY**

Three members of the Academy's Board of Education are also members of the finance committee of St. Martin de Porres Parish, lessor of the Academy's facility. (See Note 11.)

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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***

Englewood Peace Academy  
Lucas County  
1120 Horace Street  
Toledo, Ohio 43606-4737

To the Board of Education:

We have audited the basic financial statements of Englewood Peace Academy, Lucas County, (the Academy), as of and for the year ended June 30, 2004, which comprises the Academy's basic financial statements and have issued our report thereon dated May 26, 2005, in which we noted that the Academy had adopted the provisions of Governmental Accounting Standards Board Statement No. 34. 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 opinions 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 the Academy's management dated May 26, 2005, 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 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  
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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Englewood Peace Academy  
Lucas County  
Independent Accountants' Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of management the Board of Education, and the Sponsor. 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

May 26, 2005



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**ENGLEWOOD PEACE 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  
JULY 12, 2005**