



**Auditor of State
Betty Montgomery**

**GLASS CITY ACADEMY
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Glass City Academy
Lucas County
2275 Collingwood Boulevard
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, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. 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

February 23, 2005

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

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, 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 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. However, because this is the first year of existence for the Academy and the first year of adoption of the new reporting model, comparative prior year information does not exist. Subsequent reports will include the comparative information.

Financial Highlights

- Total net assets were \$1,036,166.
- Total assets were \$1,090,103.
- Total liabilities were \$53,937.

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.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" This statement includes 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 takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

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

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

(Table 1)
Net Assets

	2004
Assets	
Current Assets	\$ 1,028,503
Capital Assets, Net	61,600
<i>Total Assets</i>	1,090,103
Liabilities	
Current Liabilities	53,937
<i>Total Liabilities</i>	53,937
Net Assets	
Invested in Capital Assets	61,600
Unrestricted	974,566
<i>Total Net Assets</i>	\$ 1,036,166

Total assets totaled \$1,090,103. Equity in pooled cash and cash equivalents amounts to \$926,136. Intergovernmental Receivables amounted to \$100,302. This increase was due to the timing of the receipt of some grants. Because it was the first year of operation, some of the receipts from fiscal year 2004 grants were not received until fiscal year 2005.

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

(Table 2)
Change in Net Assets

	2004
Operating Revenues:	
Foundation Payments	\$ 1,155,923
Disadvantaged Pupil Impact Aid	27,625
Special Education	40,024
Other	500
Non-Operating Revenues:	
Federal and State Grants	305,001
Interest	840
Contributions and Donations	2,075
<i>Total Revenues</i>	1,531,988

(Continued)

**GLASS CITY 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
Operating Expenses	
Salaries	260,585
Fringe Benefits	80,703
Purchased Services	81,110
Materials and Supplies	11,618
Depreciation	15,400
Other Expenses	46,406
<i>Total Expenses</i>	495,822
<i>Increase in Net Assets</i>	\$ 1,036,166

Capital Assets

At the end of fiscal year 2004 the Academy had \$61,600, invested in furniture and equipment. Table 3 shows fiscal year 2004:

(Table 3)
Capital Assets at June 30, 2004
(Net of Depreciation)

	2004
Furniture, Fixtures, and Equipment	\$ 61,600

For more information on capital assets see Note 6 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 2003-2004 school year, there were approximately 208 students enrolled in the Academy. The Academy receives its finances mostly from state aide. Per pupil aide for fiscal year 2004 amounted to \$5,058 per student.

Contacting the School's Financial Management

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

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**GLASS CITY ACADEMY
LUCAS COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 926,136
Intergovernmental Receivables	100,302
Prepaid Items	<u>2,065</u>
<i>Total Current Assets</i>	1,028,503

Non-Current Assets:

Capital Assets:

Depreciable Capital Assets, Net of Related Debt	<u>61,600</u>
<i>Total Non-Current Assets</i>	<u>61,600</u>

<i>Total Assets</i>	<u>1,090,103</u>
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Liabilities

Current Liabilities:

Accounts Payable	5,125
Accrued Wages and Benefits	38,840
Intergovernmental Payable	<u>9,972</u>

<i>Total Current Liabilities</i>	<u>53,937</u>
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Net Assets

Invested in Capital Assets	61,600
Unrestricted	<u>974,566</u>

<i>Total Net Assets</i>	<u><u>\$ 1,036,166</u></u>
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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, 2004

	Enterprise
Operating Revenues	
Foundation Payments	\$ 1,155,923
Disadvantaged Pupil Impact Aid	27,625
Special Education	40,024
Other Revenues	500
<i>Total Operating Revenues</i>	1,224,072
Operating Expenses	
Salaries	260,585
Fringe Benefits	80,703
Purchased Services	81,110
Materials and Supplies	11,618
Depreciation	15,400
Other	46,406
<i>Total Operating Expenses</i>	495,822
<i>Operating Income</i>	728,250
Non-Operating Revenues and Expenses	
State Grants	155,001
Federal Grants	150,000
Interest	840
Contributions and Donations	2,075
<i>Total Non-Operating Revenues and Expenses</i>	307,916
<i>Change in Net Assets</i>	1,036,166
Net Assets Beginning of Year	-
<i>Net Assets End of Year</i>	\$ 1,036,166

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, 2004

Increase (Decrease) in Cash and Cash Equivalents:

<u>Cash Flows from Operating Activities:</u>	
Cash Received from State of Ohio	\$ 1,195,947
Cash Received from Other Operating Sources	500
Cash Payments to Suppliers for Goods and Services	(134,574)
Cash Payments to Employees for Services	(227,609)
Cash Payments for Employee Benefits	<u>(66,367)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>767,897</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
State Subsidies Received	155,001
Federal Subsidies Received	77,323
Contributions and Donations	<u>2,075</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>234,399</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	<u>(77,000)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(77,000)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest	<u>840</u>
<i>Net Cash Provided by Investing Activities</i>	<u>840</u>
<i>Net Increase in Cash and Cash Equivalents</i>	926,136
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 926,136</u></u>

(Continued)

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities:**

Operating Income \$ 728,250

**Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities**

Depreciation	15,400
Changes in Assets and Liabilities:	
(Increase) in Intergovernmental Receivable	(27,625)
(Increase) in Prepaid Items	(2,065)
Increase in Accounts Payable	5,125
Increase in Accrued Wages and Benefits	38,840
Increase in Intergovernmental Payable	9,972

Total Adjustments 39,647

Net Cash Provided by Operating Activities \$ 767,897

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GLASS CITY 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

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

The Academy was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing September 8, 2003. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy (see note 12).

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 7 non-certified and 2 certificated full time teaching personnel who provide services to 208 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus

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

**GLASS CITY 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.

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

E. Cash and Cash Equivalents

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

For the purposes of the statement of cash flows and the presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During fiscal year 2004, investments were limited to repurchase agreements. Repurchase agreements are reported at cost.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation 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.

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

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

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2004 school year totaled \$1,528,573.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5 years

I. Net Assets

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

J. Operating Revenues and Expenses

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

**GLASS CITY 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.

NOTE 3 - DEPOSITS

At fiscal year end, the carrying amount of the Academy's deposits was \$64,259, and the bank balance was \$105,521. Of the bank balance, \$100,000 was covered by federal depository insurance and \$5,521 was collateralized with securities held in a single financial institution's pool of investments pledged to collateralize all public deposits. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Academy's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at fiscal year end. Category 1 includes investments insured or registered for which 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 totaling \$861,877 (reported amount and fair value), which are maintained in a Business Sweep Account (repurchase agreement), which are included in Category 3.

NOTE 4 - CAPITAL ASSETS

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

	Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>06/30/04</u>
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$ -	\$ 77,000	\$ -	\$ 77,000
<i>Total Capital Assets</i>				
Being Depreciated	<u>-</u>	<u>77,000</u>	<u>-</u>	<u>77,000</u>
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	-	(15,400)	-	(15,400)
<i>Total Accumulated Depreciation</i>	<u>-</u>	<u>(15,400)</u>	<u>-</u>	<u>(15,400)</u>
<i>Total Capital Assets</i>				
<i>Being Depreciated, Net</i>	<u>-</u>	<u>61,600</u>	<u>-</u>	<u>61,600</u>
<i>Business-Type Activity</i>				
<i>Capital Assets, Net</i>	<u>\$ -</u>	<u>\$ 61,600</u>	<u>\$ -</u>	<u>\$ 61,600</u>

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
FY '04 SB-2 DPIA	\$ 27,625
Federal Subgrant '04	72,677
<i>Total All Intergovernmental Receivables</i>	\$ 100,302

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the Academy contracted with Cincinnati Insurance Company for general liability, property insurance, 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 14)

B. Workers' Compensation

The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

NOTE 7 - 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

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

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 the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 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 School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2004 was \$3,403; 65.33 percent has been contributed for fiscal year 2004. \$1,180 represents the unpaid contribution for fiscal year 2004. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement System of Ohio

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

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

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

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

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

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 year ended June 30, 2004 was \$24,722; 85.91 percent has been contributed for fiscal year 2004. \$3,482 representing the unpaid contributions for 2004 is recorded as a liability within the respective funds.

NOTE 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 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 \$1,902 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 \$3,709.

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.

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

NOTE 9 - EMPLOYEE BENEFITS

A. Insurance Benefits

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

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 - 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 of the State, upon which state foundation funding is calculated. ODE has conducted a review of the Academy's 2004 student enrollment data and FTE calculations. For fiscal year 2004, the results of this review resulted in a decrease of \$6,251 which will be deducted from future foundation payments.

C. Litigation

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

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

NOTE 12 - 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 Fiscal Agent for fiscal year 2004 totaled \$19,700 and a liability in the amount of \$2,104 was accrued for the year ended June 30, 2004.

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

- A. Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor's or any other Community School's funds;
- B. Maintain all books and accounts of all funds of the Academy;
- C. Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;
- D. Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. Invest funds of the Academy in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other Community School; and
- F. Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrator of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 13 – PURCHASED SERVICES

For the period ended June 30, 2004 purchased service expenses were payments for services rendered, as follows:

Professional and Technical Services	\$ 37,583
Property Services	29,353
Travel Mileage/Meeting Expense	2,176
Communications	11,367
Tuition	631
<i>Total Purchased Services</i>	<u><u>\$ 81,110</u></u>

NOTE 14 - OPERATING LEASES – LESSEE DISCLOSURE

The Academy entered into a lease for the period August 26, 2003 through August 26, 2005 with the Sponsor to lease space to house the Academy. Payments made totaled \$25,000 for the year ended June 30, 2004. In August 2004, the Academy renewed the lease for an additional one-year term at \$4,250 a month.

**GLASS CITY ACADEMY
LUCAS COUNTY**

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

The Academy also entered into an operating lease commencing September 1, 2003 for a term of 12 months for a copier. Payments made totaled \$3,210 in lease payments and meter billings. The copier is owned by the Sponsor.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2004.

<u>Year Ending June 30,</u>	<u>Facility Rental</u>	<u>Copier</u>
2005	<u>\$ 5,000</u>	<u>\$ 250</u>
<i>Total Minimum Payments</i>	<u><u>\$ 5,000</u></u>	<u><u>\$ 250</u></u>

NOTE 15 - TAX EXEMPT STATUS

As of the date of this report, the Academy has not obtained approval for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy's attorney, as of October 25, 2004, has filed the application on behalf of the Academy.



**Auditor of State
Betty Montgomery**

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

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

To the Governing Board:

We have audited the basic financial statements of the Glass City Academy, Lucas County, (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 23, 2005. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Academy in a separate letter dated February 23, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weaknesses is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Glass City Academy
Lucas County
Independent Accountants' Report on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of audit committee, management, Governing Board, and Sponsor, and is not intended to be and should not be used by 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

February 23, 2005



**Auditor of State
Betty Montgomery**

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

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800-282-0370

Facsimile 614-466-4490

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
APRIL 5, 2005**