



**Auditor of State
Betty Montgomery**

PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Paul Laurence Dunbar Academy
Lucas County
331 14th Street
Toledo, Ohio 43624-1402

To the Governing Board:

We have audited the accompanying basic financial statements of Paul Laurence Dunbar 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 15, 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 15, 2005

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

The discussion and analysis of Paul Laurence Dunbar 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.

Financial Highlights

- In total, net assets increased \$161,060, which represents a 128.5 percent increase from 2003. This increase was due to an increase in students and a related increase in state foundation monies and Disadvantaged Pupil Instructional Aid. There was also an increase in federal subsidies.
- Total assets increased \$258,196, which represents a 119.1 percent increase from 2003. This was primarily due to an increase in capital assets and an increase in state foundation monies and Disadvantaged Pupil Instructional Aid. There was also an increase in federal subsidies.
- Liabilities increased \$97,136 which represents a 106.3 percent increase from 2003. This increase was due to the increase in payables due to income taxes and an increase in contracts payable for accrued payroll at the end of the fiscal year.

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.

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

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

(Table 1)
Net Assets

	2003	2004
Assets		
Current Assets	\$ 204,485	\$ 357,853
Capital Assets, Net	12,253	117,081
<i>Total Assets</i>	<u>216,738</u>	<u>474,934</u>
Liabilities		
Current Liabilities	91,354	188,490
<i>Total Liabilities</i>	<u>91,354</u>	<u>188,490</u>
Net Assets		
Invested in Capital Assets	14,340	117,081
Unrestricted	111,044	169,363
<i>Total Net Assets</i>	<u>\$ 125,384</u>	<u>\$ 286,444</u>

Total assets increased \$258,196. This was primarily due to an increase in capital assets and an increase in state foundation monies and Disadvantaged Pupil Instructional Aid. There was also an increase in federal subsidies. Equity in pooled cash and cash equivalents increased by \$25,574 from 2003. Intergovernmental Receivables increased by \$108,573. This increase was due to the timing of the receipt of some grants. Capital Assets, net of depreciation increased by \$104,828. Contracts payable increased by \$47,389 due to an increase in faculty.

Table 2 shows the changes in net assets for fiscal year 2003 and fiscal year 2004, as well as a listing of revenues and expenses.

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

(Table 2)
Change in Net Assets

	2003	2004
Operating Revenues:		
Foundation Payments	\$ 783,307	\$ 984,842
Disadvantaged Pupil Impact Aid	134,799	138,179
Other	1,885	2,681
Non-Operating Revenues:		
Federal Grants	248,074	398,825
State Grants	18,600	11,508
<i>Total Revenues</i>	<u>1,186,665</u>	<u>1,536,035</u>
Operating Expenses		
Salaries	404,069	521,214
Fringe Benefits	144,517	169,017
Purchased Services	434,272	489,540
Materials and Supplies	64,604	121,880
Depreciation	2,087	9,586
Other Expenses	11,732	6,452
Non-Operating Expenses:		
Taxes		57,286
<i>Total Expenses</i>	<u>1,061,281</u>	<u>1,374,975</u>
<i>Increase in Net Assets</i>	<u>\$ 125,384</u>	<u>\$ 161,060</u>

Although net assets increased from 2003 to 2004, the amount of change in net assets from the beginning to the end of each year only increased \$35,676. This was primarily due to the increase foundation revenue and federal subsidies. There was an increase in revenues of \$349,370 and an increase in expenses of \$313,694 from 2003. Of the increase in revenues, the foundation payments increased by \$201,535 and the Disadvantaged Pupil Impact Aid increased by \$3,380. Community Schools receive no support from tax revenues.

The expense for salaries increased by \$117,145 and the expense for fringe benefits increased by \$24,500 from 2003. This was primarily due to an increase in staff during fiscal year 2004. Material and supplies expense increased by \$57,276 from 2003. Due to the increase in federal subsidies and state foundation revenues, more supplies and textbooks were purchased for the Academy. Depreciation expense increased by \$7,499.

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

Capital Assets

At the end of fiscal year 2004 the Academy had \$117,081, invested in buildings and building improvements and furniture, fixtures, and equipment, which represented an increase of \$104,828 from 2003. Table 3 shows fiscal year 2004 and fiscal year 2003:

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

	2003	2004
Building and Building Improvements	\$ -	\$ 18,601
Furniture, Fixtures, and Equipment	12,253	98,480
<i>Totals</i>	<u>\$ 12,253</u>	<u>\$ 117,081</u>

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

Current Financial Issues

Paul Laurence Dunbar Academy was formed in 2001 under contract with the Ohio Council of Community Schools. During the 2003-2004 school year, there were approximately 181 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments (including Disadvantaged Pupil Impact Aid) for fiscal year 2004 amounted to \$1,123,021.

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 funds it receives. If you have questions about this report or need additional information contact Don Ash, Fiscal Officer of Paul Laurence Dunbar Academy, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or e-mail at don.ash@leonagroup.com.

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

Assets

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 211,571
Intergovernmental Receivables	126,915
Prepaid Items	<u>19,367</u>
<i>Total Current Assets</i>	357,853

Non-Current Assets:

Capital Assets:

Depreciable Capital Assets, Net	<u>117,081</u>
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<i>Total Non-Current Assets</i>	<u>117,081</u>
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<i>Total Assets</i>	<u>474,934</u>
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Liabilities

Accounts Payable	43,438
Federal and State Taxes Payable	57,286
Contracts Payable	<u>87,766</u>
<i>Total Liabilities</i>	188,490

Net Assets

Invested in Capital Assets	117,081
Unrestricted	<u>169,363</u>
<i>Total Net Assets</i>	<u>\$ 286,444</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PAUL LAURENCE DUNBAR 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	\$ 984,842
Disadvantaged Pupil Impact Aid	138,179
Charges for Services	933
Other Revenues	1,748
<i>Total Operating Revenues</i>	1,125,702
Operating Expenses	
Salaries	521,214
Fringe Benefits	169,017
Purchased Services	489,540
Materials and Supplies	121,880
Depreciation	9,586
Other	6,452
<i>Total Operating Expenses</i>	1,317,689
<i>Operating Loss</i>	(191,987)
Non-Operating Revenues and Expenses	
Federal Grants	398,825
State Grants	11,508
Federal and State Taxes	(57,286)
<i>Total Non-Operating Revenues and Expenses</i>	353,047
<i>Change in Net Assets</i>	161,060
Net Assets Beginning of Year	125,384
<i>Net Assets End of Year</i>	\$ 286,444

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Foundation Payments	\$ 960,306
Cash Received from Disadvantaged Pupil Impact Aid	138,179
Cash Received from Other Operating Revenues	2,827
Cash Payments to Suppliers for Goods and Services	(631,238)
Cash Payments to Employees for Services	(488,554)
Cash Payments for Employee Benefits	<u>(167,828)</u>

Net Cash Used for Operating Activities (186,308)

Cash Flows from Noncapital Financing Activities:

Federal Grants Received	314,788
State Grants Received	<u>11,508</u>

Net Cash Provided by Noncapital Financing Activities 326,296

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(114,414)</u>
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Net Cash Used for Capital and Related Financing Activities (114,414)

Net Increase in Cash and Cash Equivalents 25,574

Cash and Cash Equivalents at Beginning of Year 185,997

Cash and Cash Equivalents at End of Year \$ 211,571

(Continued)

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

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

Operating Loss \$ (191,987)

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

Depreciation	9,586
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	146
Increase in Prepaid Items	(19,367)
Increase in Intergovernmental Receivable	(24,536)
Decrease in Intergovernmental Payable	(37,700)
Increase in Accounts Payable	30,161
Increase in Contracts Payable	47,389

Total Adjustments 5,679

Net Cash Used for Operating Activities \$ (186,308)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PAUL LAURENCE DUNBAR 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

Paul Laurence Dunbar Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through sixth. The Academy's mission is to educate, excite, and empower students; educating them when choices in public education have been unsatisfactory for their need; exciting them in an atmosphere where a love of learning and the arts is pervasive; empowering them by providing the tools of heightened self-esteem, tolerance for others and respect for the dignity of others. At all times, excellence is the achievable goal. 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 contract with the Ohio Council of Community Schools (the Sponsor) for a period of five years commencing July 1, 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 Academy operates under the direction of a five-member Board of Directors whom also is the Governing Board for four other Leona Group Schools (See Note 14). The Board of Directors 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 Board of Directors controls the Academy's instructional/support facility staffed by 5 non-certified and 14 certificated full time teaching personnel who provide services to 181 students.

The Governing Board has entered into a management contract with The Leona Group, LLC (TLG), a for profit limited liability corporation, for management services and operation of its Academy. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee. (See Note 15.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Paul Laurence Dunbar 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 provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

A. Basis of Presentation

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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.

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.

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

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. 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.

F. 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 \$1,000 for furniture and equipment, land, and buildings, or any one item costing under \$1,000 alone but purchased in a group for over \$2,500. Software costing more than \$10,000 per application will also be capitalized. 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 except land 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:

Furniture, Fixtures and Equipment	7 years
EDP Equipment and Software	3 years
Non - EDP Equipment	6 years

G. 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.

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

H. 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. 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.

I. 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.

J. Intergovernmental Revenues

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

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 revenues in the accompanying financial statements.

K. Taxes Payable

The Academy is not tax exempt under §501(c)(3) of the Internal Revenue Code. The Academy has prepared tax returns for fiscal year 2003 and has filed for an extension for fiscal year 2004. Amounts owed to the IRS and State of Ohio at June 30, 2004 is reported on the Statement of Net Assets as Taxes Payable.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For 2004, the School 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 Government: 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 fund balance as a result of implementing GASB 37 and 38 or on beginning net asset as previously reported as a result of implementing GASB 34.

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

GASB 34 creates new basic financial statements for reporting on the School's financial activities. The financial statements now include government-wide financial statements 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 provision 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 of 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

At fiscal year end, the carrying amount of the Academy's deposits was \$211,571 and the bank balance was \$248,494. Of the bank balance, \$105,754 was covered by federal depository insurance and \$142,740 was collateralized with securities held in a single financial institution's pool of investments pledged to collateralize all public deposits.

Investments: The Academy had no investments at June 30, 2004, or during the fiscal year.

NOTE 5 - RECEIVABLES

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

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Title I	\$ 16,502
Title II-D	2,193
Charter School	65,428
School Lunch	8,421
Other	34,371
<i>Total All Intergovernmental Receivables</i>	<u><u>\$ 126,915</u></u>

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

NOTE 6 - CAPITAL ASSETS

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

	<u>Balance 6/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/04</u>
Business-Type Activity				
Capital Assets Being Depreciated				
Buildings and Improvements		\$ 18,899	\$ -	\$ 18,899
Furniture, Fixtures, and Equipment	\$ 14,340	95,516	-	109,856
<i>Total Capital Assets Being Depreciated</i>	<u>14,340</u>	<u>114,415</u>	<u>-</u>	<u>128,755</u>
Less Accumulated Depreciation:				
Buildings and Improvements		(298)	-	(298)
Furniture, Fixtures, and Equipment	(2,087)	(9,289)	-	(11,376)
<i>Total Accumulated Depreciation</i>	<u>(2,087)</u>	<u>(9,587)</u>	<u>-</u>	<u>(11,674)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>12,253</u>	<u>104,828</u>	<u>-</u>	<u>117,081</u>
<i>Business-Type Activity Capital Assets, Net</i>	<u>\$ 12,253</u>	<u>\$ 104,828</u>	<u>\$ -</u>	<u>\$ 117,081</u>

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. During fiscal year 2004, the Academy contracted with EMC Insurance Company for general liability, property insurance and educational errors and omissions insurance.

Coverages are as follows:

Educational Errors and Omissions:	
Per occurrence	\$ 2,000,000
Total per year	5,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	2,000,000
Vehicle	1,000,000

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

B. Workers' Compensation

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

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.

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 Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004 and 2003 were \$14,368 and \$8,030, respectively; 100 percent has been contributed for fiscal years 2004 and 2003.

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

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

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 9.3 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 \$44,214 and \$40,015 respectively; 100 percent has been contributed for fiscal years 2004 and 2003.

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

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

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 \$3,158 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, a decrease of 0.92 percent from fiscal year 2003. 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 \$5,039.

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...."

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

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 are 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 an increase of \$6,368 which will be included in future foundation payments.

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 on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision the 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.

NOTE 12 - PURCHASED SERVICE EXPENSE

For the year ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

Repairs and Maintenance	\$	4,638
Legal		2,636
Insurance		12,497
Advertising		7,542
Dues and Fees		3,368
Ohio Council of Community Schools		30,975
The Leona Group, LLC (See Note 15)		175,328
Cleaning Services		1,375
Utility		10,956
Other Professional Services		27,169
Other Rentals and Leases		96,856
Building Lease Agreements		<u>116,200</u>
<i>Total Purchased Services</i>	\$	<u><u>489,540</u></u>

NOTE 13 - OPERATING LEASES

The Academy has entered into a lease for the period August 1, 2003 through July 30, 2007 with Toledo Infocom, L.L.C. to lease 21,000 square feet of space for a school facility. Payments made totaled \$116,200 for the fiscal year. The building which houses the Academy is owned by Toledo Infocom, L.L.C. The Academy has the option to renew the lease at an inflation-adjusted rate at the end of the contract period.

The Academy entered into a lease with Ervin Leasing for a copier for the period September 30, 2002 through September 29, 2006. Payments made totaled \$3,828 for the fiscal year.

The Academy entered into a lease with Ervin Leasing for a fax machine for the period September 30, 2002 through September 29, 2005. Payments made totaled \$426 for the fiscal year.

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

Fiscal Year Ending June 30	Facility Lease	Copier Lease	Fax Machine Lease
2005	\$ 116,200	\$ 3,828	\$ 426
2006	116,200	3,828	71
2007	116,200	638	
2008	<u>9,683</u>		
<i>Total minimum lease payments</i>	<u><u>\$ 358,283</u></u>	<u><u>\$ 8,294</u></u>	<u><u>\$ 497</u></u>

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

NOTE 14 - RELATED PARTIES

Three Board members of the Academy are employees of The Leona Group, LLC (TLG). The Academy contracts with TLG for the operation of its school, including program evaluation; human resources; staffing, supervision, and performance review; fiscal services and accounting; and compliance. As stated in Note 12 the Academy paid TLG \$175,328 during fiscal year 2004.

The Academy's Governing Board consists of the same members as the Governing Board for Eagle Academy, Toledo Accelerated Academy, George A. Phillips Academy, and Lake Erie Academy.

NOTE 15 - MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective May 1, 2002 through June 30, 2007, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12 percent of the per pupil expenditures and a Year-End fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The amount paid to TLG for fiscal year 2004 totaled \$175,328 and no amount was due at June 30, 2004. Terms of the contracts require TLG to provide the following:

- implementation and administration of the Educational Program;
- management of all personnel functions, including professional development;
- operation of the school building and the installation of technology integral to school design;
- all aspects of the business administration of the Academy;
- the provision of food service for the Academy; and
- any other function necessary or expedient for the administration of the Academy.

The Academy may terminate this agreement with cause prior to the end of the term in the event that The Leona Group should fail to remedy a material breach within a period reasonable under the circumstances, but not less than sixty (60) days after notice from the Academy.

The Leona Group may terminate this agreement with cause prior to the end of the specified term in the event the Academy fails to remedy a material breach within a period reasonable under the circumstances, but not less than sixty (60) days after notice from The Leona Group.

In the event this agreement is terminated by either party prior to the end of the specified term, the termination will not become effective until the end of the school year following the notice of

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

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

termination and The Leona Group shall provide the Academy reasonable assistance for up to 90 days to assist in the transition to a regular school program.

NOTE 16 - TAX EXEMPT STATUS

The Academy is in the process of filing for tax exempt status under § 501(c)(3) of the Internal Revenue Code. The Academy has filed taxes for fiscal year 2003 and has filed the required the forms to the Internal Revenue Service for an extension for fiscal year 2004.

NOTE 17 - SUBSEQUENT EVENTS

On August 17, 2004 the Academy signed a new lease with Toledo Infocom, L.L.C. for the period of August 1, 2004 through July 30, 2009. The new monthly payment amount shall be \$11,783.

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**Auditor of State
Betty Montgomery**

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

Paul Laurence Dunbar Academy
Lucas County
331 14th Street
Toledo, Ohio 43624-1402

To the Governing Board:

We have audited the basic financial statements of Paul Laurence Dunbar Academy, Lucas County, (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 15, 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 the management of the Academy in a separate letter dated February 15, 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 weakness 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Academy in a separate letter dated February 15, 2005.

This report is intended for the information and use of management, the Governing Board, and the 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 15, 2005

**PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	The Academy did not file for tax exempt status under § 501(c)(3) of the Internal Revenue Code. Income is taxable, but no tax returns were filed.	Yes	The Academy has filed tax returns for fiscal year 2003 and has filed for an extension for fiscal year 2004.



**Auditor of State
Betty Montgomery**

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**PAUL LAURENCE DUNBAR 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**