



Dave Yost • Auditor of State

GLASS CITY ACADEMY
LUCAS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Glass City Academy
Lucas County
1000 Monroe Street
Toledo, Ohio 43604

To the Governing Board:

We have audited the accompanying basic financial statements of Glass City Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Glass City Academy, Lucas County, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2011, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

August 17, 2011

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The management's discussion and analysis of Glass City Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2011. 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 the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets were \$1,839,716 at June 30 2011.
- The Academy had operating revenues of \$884,636 and operating expenses of \$1,406,304 for fiscal year 2011. The Academy had \$81,740 in nonoperating revenues and expenses for fiscal year 2011, including \$80,786 in Federal and State grants. The total change in net assets for the fiscal year was a decrease of \$439,928.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2011?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The statement of cash flows provides information about how the Academy finances and is meeting the cash flow needs of its operations.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

The table below provides a summary of the Academy's net assets for fiscal years 2011 and 2010.

	Net Assets	
	2011	2010
<u>Assets</u>		
Current assets	\$ 1,929,609	\$ 2,358,466
Capital assets, net	21,670	9,518
	1,951,279	2,367,984
<u>Liabilities</u>		
Current liabilities	94,897	88,340
Non-current liabilities	16,666	
	111,563	88,340
<u>Net Assets</u>		
Invested in capital assets	5,004	9,518
Restricted	4,928	
Unrestricted	1,829,784	2,270,126
	\$ 1,839,716	\$ 2,279,644

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Academy's net assets totaled \$1,839,716. Current assets decreased and current liabilities increased resulting in an overall decrease in net assets of \$439,928. The overall decrease in net assets is primarily due to a decrease of \$437,853 in cash and cash equivalents. The decrease in cash and cash equivalents was the result of the Academy spending more money during the year than it received in state and federal aid. The Academy also experienced a decrease in enrollment, which reduced state financial aid received from the prior year.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

The table below shows the changes in net assets for fiscal years 2011 and 2010.

	2011	2010
<u>Operating Revenues:</u>		
State foundation	\$ 837,340	\$ 1,147,014
Special education	46,040	31,820
Classroom fees	945	1,350
Other operating revenue	311	210
Total operating revenue	884,636	1,180,394
<u>Operating Expenses:</u>		
Salaries and wages	768,972	721,440
Fringe benefits	258,552	234,248
Purchased services	300,109	472,558
Materials and supplies	42,730	245,630
Depreciation	3,256	24,922
Other	32,685	85,892
Total operating expenses	1,406,304	1,784,690
<u>Non-operating revenues:</u>		
Federal and State grants	80,786	85,505
Interest income	3,099	3,965
Interest and fiscal charges	(145)	
Loss on disposal of capital assets	(2,000)	
Total non-operating revenues	81,740	89,470
Change in net assets	(439,928)	(514,826)
Net assets at beginning of year	2,279,644	2,794,470
Net assets at end of year	\$ 1,839,716	\$ 2,279,644

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation basic aid. State foundation basic aid and special education attributed to 91.33% of total operating and non-operating revenues during fiscal year 2011. State funding decreased 25.06% from the previous year as a result of a reduction in students enrolled in the Academy. Salaries and fringe benefits comprise 73.07% of operating expenses. Wages and benefit expenditures increased from the prior year as a result of the Academy hiring its own security personnel. In prior years, the Academy had contracted these services out. Purchased services and materials and supplies expenditures decreased by more than 50%. This was the result of the Academy spending a significant amount of money related to legal and construction costs for the potential purchase of property and subsequent improvement of a rental property during 2010 that it did not make during 2011.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

At June 30, 2011, the Academy had \$21,670 invested in furniture, fixtures and equipment, net of accumulated depreciation. See Note 5 in the notes to the basic financial statements for more detail on capital assets.

At June 30, 2011, the Academy's long-term obligations consisted of a capital lease. For further information regarding the Academy's long-term obligations, refer to Notes 6 and 10 to the basic financial statements.

Current Financial Related Activities

The utilization of the Lucas County Educational Service Center as the Academy's fiscal agent greatly improves the internal control structure and quality of its financial records. During the 2010-2011 school year, there were approximately 136 students enrolled in the Academy.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for State and federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information contact Ms. Karen Arnold, Fiscal Consultant at Glass City Academy, 1000 Monroe Street., Toledo, Ohio 43604 or email at gca_ka@nwoca.org.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:

Current assets:	
Cash and cash equivalents	\$ 1,896,755
Receivables:	
Accounts	80
Prepayments	14,774
Security deposit.	18,000
	1,929,609
Total current assets	
Non-current assets:	
Depreciable capital assets, net	21,670
	1,951,279
Total assets.	

Liabilities:

Current liabilities:	
Accounts payable.	17,455
Accrued wages and benefits	55,676
Pension obligation payable.	14,125
Intergovernmental payable	7,641
	94,897
Total current liabilities	
Non-current liabilities:	
Due within one year.	3,230
Due in more than one year.	13,436
	16,666
Total non-current liabilities	
Total liabilities	
	111,563
Net assets:	
Invested in capital assets, net of related debt	5,004
Restricted for federal programs.	4,928
Unrestricted.	1,829,784
	1,839,716
Total net assets	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Operating revenues:	
Foundation revenue	\$ 837,340
Special education.	46,040
Classroom fees.	945
Other operating revenues.	311
Total operating revenues	884,636
Operating expenses:	
Salaries and wages.	768,972
Fringe benefits.	258,552
Purchased services.	300,109
Materials and supplies	42,730
Depreciation	3,256
Other.	32,685
Total operating expenses.	1,406,304
Operating loss.	(521,668)
Nonoperating revenues (expenses):	
Grants and subsidies.	80,786
Interest revenue	3,099
Interest and fiscal charges	(145)
Loss on disposal of capital assets	(2,000)
Total nonoperating revenues (expenses)	81,740
Change in net assets.	(439,928)
Net assets at beginning of year	2,279,644
Net assets at end of year.	\$ 1,839,716

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Cash flows from operating activities:	
Cash received from state foundation	\$ 883,380
Cash received from classroom fees	945
Cash received from other operations	311
Cash payments for salaries and wages.	(774,988)
Cash payments for fringe benefits	(253,525)
Cash payments for contractual services	(302,085)
Cash payments for materials and supplies	(43,562)
Cash payments for other expenses	(31,327)
	<hr/>
Net cash used in operating activities	(520,851)
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	80,786
	<hr/>
Cash flows from capital and related financing activities:	
Interest and fiscal charges	(145)
Principal retirement on capital lease	(742)
	<hr/>
Net cash used in capital and related financing activities.	(887)
Cash flows from investing activities:	
Interest received	3,099
	<hr/>
Net decrease in cash and cash equivalents.	(437,853)
Cash and cash equivalents at beginning of year	2,334,608
Cash and cash equivalents at end of year	<u>\$ 1,896,755</u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (521,668)
Adjustments:	
Depreciation	3,256
Changes in assets and liabilities:	
(Increase) in accounts receivable	(80)
(Increase) in prepayments	(8,916)
Increase in accounts payable.	9,819
(Decrease) in accrued wages and benefits	(3,104)
Increase in intergovernmental payable.	2,212
(Decrease) in pension obligation payable	(2,370)
	<hr/>
Net cash used in operating activities.	<u>\$ (520,851)</u>
 Noncash capital and related financing activities:	
Capital lease obligations of \$17,408 were incurred when the Academy entered into a lease for a new copier.	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE ACADEMY

Glass City Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's mission is to provide a second chance for dropout and highly at-risk youth to complete high school, learn readily marketable work skills and explore post-secondary training options. The underlying philosophy of the Academy is that all students have a right to a challenging high school education with a focus on the future, provided in a manner that addresses individual academic, social and behavioral needs. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the "Sponsor") for a period of five years commencing September 8, 2004. The Academy renewed the contract with the Sponsor through June 30, 2012. 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 the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the Academy (See Note 11).

The Academy operates under the direction of a five-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 16 non-certified and 13 certified full-time teaching personnel who provide services to 136 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 a governmental nonprofit organization. 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 revenues, 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.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements 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.

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Cash and Investments

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

For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

During fiscal year 2011, investments were limited to repurchase agreements. Investments were reported at fair value which is based on quoted market prices.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Basic Aid, State Special Education and EMIS grants. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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 \$2,000. 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. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Net assets are reported as restricted when there are limitations imposed on their used either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

J. Operating Revenues and Expenses

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

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. Security Deposit

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$18,000, is held by the lessor and may be used towards the last two months of rent or towards the purchase price of the property, if the Academy exercises its option to purchase (see note 13).

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2011, the Academy has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 did not have an effect on the financial statements of the Academy.

GASB Statement No. 59 updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the Academy.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all Academy deposits was \$1,867,493, exclusive of the \$29,262 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$1,387,737 of the Academy's bank balance of \$1,887,737 was exposed to custodial risk as discussed below, while \$500,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

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

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

B. Investments

As of June 30, 2011, the Academy had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase agreement	\$ 29,262	\$ 29,262

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Academy's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The Farmer Mac security underlying the repurchase agreement was rated AAA by Standard and Poor's and Aa1 by Moody's. The Academy has no investment policy dealing with credit risk beyond the requirements of State statute.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments – (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Academy's \$29,262 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the Academy. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Academy places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Academy at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase agreement	\$ 29,262	100.00

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,867,493
Investments	29,262
Total	<u>\$ 1,896,755</u>
 <u>Cash and investments per statement of net assets</u>	
Business-type activities	<u>\$ 1,896,755</u>

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance 06/30/10	Additions	Deductions	Balance 06/30/11
Capital Assets Being Depreciated:				
Furniture, Fixtures and Equipment	\$ 272,328	\$ 17,408	\$ (121,942)	\$ 167,794
Less Accumulated Depreciation:				
Furnitures, Fixtures and Equipment	(262,810)	(3,256)	119,942	(146,124)
Capital Assets, Net	<u>\$ 9,518</u>	<u>\$ 14,152</u>	<u>\$ (2,000)</u>	<u>\$ 21,670</u>

NOTE 6 - CAPITALIZED LEASE - LESSEE DISCLOSURE

The Academy entered into capital lease agreements in March 2011 for copiers. The lease both meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases are recorded at the present value of the future minimum lease payments as of the inception date. Principal payments made during fiscal year 2011 totaled \$742.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2011:

Fiscal Year Ending June 30	Total
2012	\$ 3,990
2013	3,990
2014	3,990
2015	3,990
2016	<u>2,773</u>
Minimum Lease Payments	18,733
Less: Interest	<u>(2,067)</u>
Present Value of Minimum Lease Payments	\$16,666

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 7 - RISK MANAGEMENT

A. Insurance Coverage

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 2011, the Academy contracted with the Cincinnati Insurance Company for general liability, property and director and officer errors and omissions insurance.

Coverage is as follows:

Commercial General Liability per occurrence	\$1,000,000
Commercial General Liability aggregate	3,000,000
Damage to Rented Premises	100,000
Personal and Advertising Injury Liability	1,000,000
Products - Completed/Operations aggregate	3,000,000
Teacher's Professional Liability per occurrence (\$10,000 deductible)	1,000,000
Teacher's Professional Liability aggregate	1,000,000
Commercial Property Liability:	
Business Personal Property (\$1,000 deductible)	525,000

The Academy owns no property, but leases a facility located at 1000 Monroe Street, Toledo, Ohio (See Note 13).

Settled claims have not exceeded commercial coverage in the past three years and there have been no significant reductions in insurance coverage from fiscal year 2010.

B. Workers' Compensation

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

C. Employee Benefits

The Academy provides medical, dental, and vision insurance to its full-time employees who work 180 days or more per fiscal year.

NOTE 8 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - PENSION PLANS – (Continued)

Funding Policy - 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 2011, 11.81 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$31,405, \$21,600 and \$9,679, respectively; 79.93 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - PENSION PLANS – (Continued)

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$66,180, \$71,332 and \$69,399, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - POSTEMPLOYMENT BENEFITS – (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$6,860, \$2,353 and \$5,942, respectively; 79.93 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010 and 2009 were \$2,021, \$1,285 and \$799, respectively; 79.93 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$5,091, \$5,487 and \$5,338, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 10 – LONG TERM OBLIGATIONS

The Academy’s long-term obligations activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Capital Leases Payable		\$17,408	\$742	\$16,666	\$3,230

NOTE 11 - FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center 2% of the per pupil allotment paid to the Academy from the State of Ohio. A total contract payment of \$18,007 was paid during the fiscal year, and a liability in the amount of \$1,276 was accrued as a liability for the fiscal year ended June 30, 2011.

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

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School’s funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer’s designee;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - PURCHASED SERVICES

For the year ended June 30, 2011, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 107,881
Property Services	110,858
Travel Mileage/Meeting Expense	507
Communications	36,213
Utilities	44,050
Other	<u>600</u>
Total Purchased Services	<u><u>\$ 300,109</u></u>

NOTE 13 - OPERATING LEASES

The Academy entered into a lease with T&E Properties, LTD., for the period December 1, 2009 through June 30, 2011. The cost of the lease during this period will be monthly installment payments of \$9,000. Lease payments to the lessor totaled \$86,393, which included a \$11,000 prepayment of rent. In addition, the Academy made payments for HVAC repair in lieu of rent, as permitted by the contract, totaling \$20,373.

The Academy entered into an amended lease agreement that begins July 1, 2011 through June 30, 2014 with monthly installment payments of \$11,000 for fiscal year 2012, \$11,500 for fiscal year 2013 and \$12,000 for fiscal year 2014. The Academy has the option to renew the lease for 3 years, a total of two times. The lease also provides the Academy the option to purchase the property at any time during the time of the lease.

NOTE 14 - CONTINGENCIES

A. Grants

The Academy received financial assistance from State agencies in the form of grants. The expense 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. 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, 2011.

B. Litigation

There are currently no matters in litigation with the Academy as defendant.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The Academy does not anticipate any significant adjustments to State funding for fiscal year 2012 as a result of the reviews which have yet to be completed.

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Glass City Academy
Lucas County
1000 Monroe Street
Toledo, Ohio 43604

To the Governing Board:

We have audited the basic financial statements of Glass City Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated August 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

We intend this report solely for the information and use of management, the audit committee, Governing Board, the Community School's sponsor, and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

August 17, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Glass City Academy
Lucas County
1000 Monroe Street
Toledo, Ohio 43604

To the Governing Board:

Ohio Rev. Code, Section 117.53, states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Governing Board, solely to assist the Governing Board in evaluating whether Glass City Academy, Lucas County, Ohio has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Governing Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Governing Board amended its anti-harassment policy at its meeting on March 16, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We intend this report solely for the information and use of management, the audit committee, Governing Board, the Community School's sponsor, and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 17, 2011

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.auditor.state.oh.us

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Dave Yost • Auditor of State

GLASS CITY ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 6, 2011**