



**Auditor of State
Betty Montgomery**

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the Balance Sheet of Englewood Peace Academy, Lucas County, (the Academy) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year ended June 30, 2003. 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 *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 financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2003, and the results of its operations 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 April 22, 2004, 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.

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

Betty Montgomery
Auditor of State

April 22, 2004

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Balance Sheet
As of June 30, 2003**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$ 422,142
Accounts Receivable	1,652
Intergovernmental Receivable	132,364
Prepaid Items	11,887
Inventory Held for Resale	575
	<hr/>
Total Current Assets	568,620

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	41,200
	<hr/>

Total Assets	\$ 609,820
	<hr/> <hr/>

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$ 2,820
Accrued Wages	111,542
Intergovernmental Payable	49,568
Deferred Revenue	375
Capital Leases Payable	17,346
	<hr/>
Total Current Liabilities	181,651

Long-Term Liabilities

Capital Leases Payable	18,638
	<hr/>

Total Liabilities	200,289
	<hr/>

Equity

Retained Earnings:	
Unreserved	409,531
	<hr/>

Total Liabilities and Fund Equity	\$ 609,820
	<hr/> <hr/>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Statement of Revenues, Expenses, and Changes in Retained Earnings
For the Year Ended June 30, 2003**

Operating Revenues	
Foundation Payments	\$ 1,164,368
Disadvantaged Public Impact Aid	181,604
Special Education	29,901
Food Services	21,185
Classroom Materials and Fees	17,368
Other Operating Revenues	<u>10,096</u>
Total Operating Revenues	<u>1,424,522</u>
Operating Expenses	
Salaries	707,474
Fringe Benefits	191,398
Purchased Services	258,223
Materials and Supplies	128,864
Cost of Sales	42,913
Depreciation	19,146
Other Operating Expenses	<u>15,043</u>
Total Operating Expenses	<u>1,363,061</u>
Operating Income	<u>61,461</u>
Non-Operating Revenues (Expenses)	
Federally Donated Commodities	10,025
Operating Grants - Federal	182,527
Operating Grants - State	155,287
Interest Income	2,514
Contributions and Donations	120
Interest and Fiscal Charges	<u>(2,403)</u>
Total Non-Operating Revenues (Expenses)	<u>348,070</u>
Net Income	409,531
Retained Earnings at Beginning of Year	<u>-</u>
Retained Earnings at End of Year	<u><u>\$ 409,531</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Statement of Cash Flows
For the Year Ended June 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities</u>	
Cash received from State of Ohio	\$ 1,387,755
Cash received from Food Services	29,105
Cash Received from Classroom Fees	16,282
Cash Received from Other Sources	9,691
Cash Payments to Suppliers for Goods and Services	(444,285)
Cash Payments to Employees for Services	(609,476)
Cash Payments for Employee Benefits	(148,248)
	240,824
 <u>Cash Flows from Noncapital Financing Activities</u>	
Operating Grants - Federal	50,163
Operating Grants - State	155,287
Contribution and Donations	120
	205,570
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Principal Payments	(17,088)
Interest Payments	(2,403)
Payments for Capital Acquisitions	(7,274)
	(26,765)
 <u>Cash Flows from Investing Activities</u>	
Interest on Investments	2,513
	2,513
Net Increase in Cash and Cash Equivalents	422,142
Cash and Cash Equivalents at the Beginning of the Year	-
Cash and Cash Equivalents at the End of the Year	\$ 422,142

(Continued)

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Statement of Cash Flows
For the Year Ended June 30, 2003
(Continued)**

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

Operating Income	\$ 61,461
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>	
Depreciation	19,146
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(1,652)
(Increase) in Prepaid Items	(11,887)
(Increase) in Inventory Held for Resale	(575)
Increase in Donated Commodities used during the year	10,025
Increase in Accounts Payable	2,820
Increase in Accrued Wages	111,543
Increase in Intergovernmental Payable	49,568
Increase in Deferred Revenue	375
	<hr/>
Total Adjustments	179,363
	<hr/>
Net Cash Provided by Operating Activities	\$ 240,824
	<hr/> <hr/>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Notes to the Financial Statements
June 30, 2003**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Englewood Peace Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's objective is to provide quality education marked by strong values, high academic standards, and consistent discipline. Respect for self and others, honesty, friendliness, cultural pride, and collaboration describe the spirit of Englewood Peace Academy. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years, commencing July 2002. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy (see Note 13).

The Academy operates under the direction of a ten-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 20 non-certified and 15 certificated full time teaching personnel who provide services to 244 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Notes to the Financial Statements
June 30, 2003
(Continued)**

pronouncements. The more significant of the Academy's accounting policies are described below:

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.

B. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment is determined by its 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 balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. 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 Academy's contract with 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.

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Notes to the Financial Statements
June 30, 2003
(Continued)**

D. Cash and Cash Equivalents

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

During fiscal year 2003, investments were limited to repurchase agreements and STAR Ohio. Repurchase agreements are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

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

E. Fixed Assets and Depreciation

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

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

Depreciation is computed using the straight-line method over an estimated useful life of five years, for furniture and equipment and three years for computers. Capital leases are depreciated over the life of the lease.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education

**ENGLEWOOD PEACE ACADEMY
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**Notes to the Financial Statements
June 30, 2003
(Continued)**

Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

The Academy also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$50,000 for the planning phase of the Academy. Additionally, the Sponsor awarded the Academy \$100,000 to partially defray school start-up costs. Revenue received from these programs is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the year ended June 30, 2003, totaled \$1,713,687.

G. Prepaid Items

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

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Notes to the Financial Statements
June 30, 2003
(Continued)**

3. DEPOSITS AND INVESTMENTS

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

At June 30, 2003, the carrying amount of the Academy's deposits was \$11,316 and the bank balance was \$41,959. The bank balance was covered by federal depository insurance.

The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at year end. Category 1 includes investments that are insured or registered for which the securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name. The Academy's investments total \$410,826, of which \$209,955 (carrying amount and fair value) is maintained in a Ready Resource Savings Account (repurchase agreement) included in Category 2, and \$200,871 (fair value) which is maintained in a STAR Ohio account, which is not categorized because it is not evidenced by securities that exist in physical or book entry form.

4. RECEIVABLES

Receivables at June 30, 2003, consisted of accounts receivable and intergovernmental (e.g. foundation, DPIA, federal, and state grants) receivables. Accounts receivables consist of other miscellaneous types of receipts and are considered collectible in full. Intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$ 60,346
Less: Accumulated Depreciation	<u>(19,146)</u>
Net Fixed Assets	<u>\$ 41,200</u>

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Notes to the Financial Statements
June 30, 2003
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2003, the Academy contracted with Cincinnati Insurance Agency for general liability insurance, with a \$1,000,000 single occurrence limit and a \$2,000,000 aggregate. The umbrella liability has a single occurrence limit of \$4,000,000 and an aggregate limit of \$4,000,000. Commercial Property is covered up to \$100,000, electronic data is covered up to \$60,000 with a \$250 deductible, and employer's liability has \$1,000,000 bodily injury per employee and an aggregate limit of \$1,000,000.

Educator's Professional liability is protected by Federal Insurance Company, with a \$1,000,000 single occurrence limit and \$10,000 deductible.

B. Worker's 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.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Notes to the Financial Statements
June 30, 2003
(Continued)**

school 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 2003, 8.17 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 statutory maximum amounts by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2003 was \$16,875; 100 percent has been contributed for year 2003. The unpaid contribution for fiscal year 2003, in the amount of \$302 is recorded as a liability.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement 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 the STRS Ohio, 275 East Broad Street, Columbus, Ohio, 43215-3371 or by calling (614) 227-4090.

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and the 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

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Notes to the Financial Statements
June 30, 2003
(Continued)**

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, 2003, 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 the DB Plan for the fiscal year ended June 30, 2003 was \$52,384; 100 percent has been contributed for fiscal year 2003. Contribution to the Combined Plan for the fiscal year 2003 was \$3,117 made by the plan members. The unpaid contribution at June 30, 2003, in the amount of \$12,259 is recorded as a liability.

8. POST-EMPLOYMENT 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-certificated 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.

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid

**ENGLEWOOD PEACE ACADEMY
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**Notes to the Financial Statements
June 30, 2003
(Continued)**

from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$4,029 for the year ended June 30, 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the Academy, the amount to fund health care benefits, including surcharge, was \$23,220 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level of the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

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

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Notes to the Financial Statements
June 30, 2003
(Continued)**

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 plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

11. OPERATING LEASES

The Academy entered into an operating lease agreement on July 1, 2002 which terminates June 30, 2005 for the Academy's facility. This agreement is, in substance, a facility rental agreement, and facility lease payments for the year totaled \$120,000.

The following is a schedule of the future minimum lease payments required under the operating lease at June 30, 2003:

<u>Year Ending June 30</u>	<u>Payments</u>
2004	\$ 120,000
2005	120,000
Total minimum lease payments	<u><u>\$ 240,000</u></u>

12. CAPITALIZED LEASE - LESSEE DISCLOSURE

The Academy entered into a capital lease in January 2003 for computer equipment and accessories. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease was recorded at the present value of the future minimum lease payments as of the inception date. Payments made during fiscal year 2003 totaled \$19,490.

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, 2003.

**ENGLEWOOD PEACE ACADEMY
LUCAS COUNTY**

**Notes to the Financial Statements
June 30, 2003
(Continued)**

<u>Year Ending June 30,</u>	
2004	\$ 19,490
2005	<u>19,490</u>
Total Minimum Lease Payments	38,980
Less: Amount representing Interest	<u>(2,996)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 35,984</u></u>

13. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Financial Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the Academy from the State of Ohio. A total contract payment of \$23,538 was paid during the fiscal year, and no liability was accrued for the year ended June 30, 2003.

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

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

**ENGLEWOOD PEACE ACADEMY
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**Notes to the Financial Statements
June 30, 2003
(Continued)**

Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

14. PURCHASED SERVICE EXPENSES

For the year ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Purchased Services	
Professional and Technical Services	\$ 58,001
Property Services	125,260
Travel Mileage/Meeting Expense	3,917
Communications	4,921
Utilities	42,531
Contracted Craft or Trade Service	55
LCESC Accounting Fees (See Note 13)	23,538
Total Purchased Services	<u><u>\$ 258,223</u></u>

15. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2003.

B. Pending 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,

**ENGLEWOOD PEACE ACADEMY
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**Notes to the Financial Statements
June 30, 2003
(Continued)**

and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Academy is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTC) 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. As a result of said review, the Academy's state foundation funding will be decreased by \$11,882 for fiscal year 2003, which is recorded as a liability on the balance sheet as of June 30, 2003.

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**Auditor of State
Betty Montgomery**

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

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

To the Governing Board:

We have audited the financial statements of Englewood Peace Academy, Lucas County, (the Academy) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 22, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Academy in a separate letter dated April 22, 2004.

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 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 April 22, 2004.

This report is intended solely 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.



Betty Montgomery
Auditor of State

April 22, 2004



**Auditor of State
Betty Montgomery**

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800-282-0370
Facsimile 614-466-4490

ENGLEWOOD PEACE ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 20, 2004**