



**WASHINGTON PARK COMMUNITY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**NEWBURGH HEIGHTS COMMUNITY SCHOOL FOUNDATION, INC.,
dba WASHINGTON PARK COMMUNITY SCHOOL
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors
Newburgh Heights Community School Foundation, Inc., dba
Washington Park Community School
Cuyahoga County
4000 Washington Park Boulevard
Newburgh Heights, Ohio 44105

We have audited the accompanying basic financial statements of the Washington Park Community School, Cuyahoga County, Ohio, (the School) as of and for the years ended June 30, 2005 and June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Washington Park Community School, Cuyahoga County, Ohio, as of June 30, 2005 and June 30, 2004, and the respective changes in financial position and 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 3, 2006, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

April 3, 2006

**Newburgh Heights Community School Foundation, Inc., dba
Washington Park Community School**
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005 and 2004
(Unaudited)

The discussion and analysis of Newburgh Heights Community School Foundation, Inc., dba Washington Park Community School's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005 and 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the Notes to the Basic Financial Statements and the Financial Statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$165,643, which represents 40% increase from 2004. This increase is due primarily to increased state funding and federal subsidies.
- Total assets increased \$191,506, which represents a 39% increase from 2004. This increase is due primarily to an increase in the year end cash balance of \$197,886. The increase in cash balance is the result of increased State and Federal funding.
- Liabilities increased \$25,863, which represents a 35% increase from 2004. Accrued wages and benefits increased by \$26,428 and leases payable decreased by \$565.
- Operating revenues increased by \$305,716, which represents a 27% increase from 2004. The majority of this increase (\$296,936) is due to increased enrollment resulting in increased state funding.
- Operating expenses increased by \$268,661, which represents a 22% increase from 2004. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.
- Non-operating revenues increased by \$71,452, which represents a 48% increase from 2004. This increase is due to increased state and Federal grants.

Using this Annual Financial Report

This annual report consists of three parts, the Management's Discussion and Analysis, the Financial Statements and the Notes to the Basic Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

**Newburgh Heights Community School Foundation, Inc., dba
Washington Park Community School**
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005 and 2004
(Unaudited)

Statement of Net Assets

The Statement of Net Assets looks at how well the School District has performed financially from inception through June 30, 2005. This Statement includes all of the assets, liabilities and net asset balances using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of the School District's Statement of Net Assets for fiscal years ended June 30, 2005, 2004 and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets			
Cash	\$ 381,973	\$ 184,087	\$ 83,215
Other Current Assets	5,653	4,983	13,840
Capital Assets	<u>291,884</u>	<u>298,934</u>	<u>332,459</u>
Total Assets	<u>679,510</u>	<u>488,004</u>	<u>429,514</u>
Liabilities			
Current Liabilities	100,024	74,161	72,242
Long-Term Liabilities	<u>0</u>	<u>0</u>	<u>565</u>
Total Liabilities	<u>100,024</u>	<u>74,161</u>	<u>72,807</u>
Net Assets			
Net Assets	<u>579,486</u>	<u>413,843</u>	<u>356,707</u>
Total Liabilities and Net Assets	<u><u>\$ 679,510</u></u>	<u><u>\$ 488,004</u></u>	<u><u>\$ 429,514</u></u>

In 2005, net assets increased \$165,643 and in 2004, net assets increased \$57,136. Both increases are primarily due to increased State and Federal subsidies and grants. For assets, cash increased \$197,886 in 2005 and \$100,872 in 2004; due from other governments increased \$670 in 2005 and decreased by \$8,857 in 2004; and capital assets decreased \$7,050 in 2005 and \$33,525 in 2004. For liabilities, accrued wages and benefits increased \$26,428 in 2005 and \$1,919 in 2004; and leases payable decreased \$565 from 2004. As with any school which is newly created, assets would increase at a higher percentage than a school which has been in existence for a long time.

**Newburgh Heights Community School Foundation, Inc., dba
Washington Park Community School**
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005 and 2004
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets report operating and nonoperating activities for the fiscal year ended June 30, 2005 and 2004.

The following schedule provides a summary of the School District's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2005, 2004 and 2003:

	2005	2004	2003
Revenues			
Foundation and DPIA Revenues	\$ 1,444,613	\$ 1,147,677	\$ 925,135
Other Operating Revenue	14,354	5,574	532
Federal and State Grants	221,249	146,170	119,852
Private Grants and Contributions	0	3,627	0
Total Revenues	1,680,216	1,303,048	1,045,519
Expenses			
Salaries	828,375	669,135	560,510
Fringe Benefits	213,634	132,481	115,982
Purchased Services	252,157	309,788	130,566
Materials and Supplies	151,338	92,432	144,628
Depreciation	48,627	39,629	18,872
Other Operating Expenses	20,442	2,447	13,257
Total Expenses	1,514,573	1,245,912	983,815
Net Income	165,643	57,136	61,704
Net Assets at Beginning of Year	413,843	356,707	295,003
Net Assets at End of Year	\$ 579,486	\$ 413,843	\$ 356,707

Net assets increased in fiscal years ended June 30, 2005, 2004 and 2003. This is due, in part, to increased revenues generated from the increase in enrollment in 2004 and 2005, and also Disadvantaged Pupil Impact Aid (DPIA) funding. Although certain expenditures such as salaries will increase as the number of classes increase, other costs remain fixed such as facilities costs resulting in more efficient operations. The increased student population has been the result of additional grade levels. The school does not presently intend to add more grade levels, so the increase in revenues will probably not increase in the near future. For that reason, school management is wary of the increasing bottom line and plans to begin an investment program to most appropriately capitalize on present assets.

**Newburgh Heights Community School Foundation, Inc., dba
Washington Park Community School**
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005 and 2004
(Unaudited)

The most significant increases in revenues is State Foundation funding and DPIA, which increased \$296,936 in 2005 and \$222,542 in 2004; Other Operating Revenues increased \$8,780 in 2005 and \$5,042 in 2004; and Federal and State Grants increased \$75,079 in 2005 and \$26,318 in 2004 primarily due to enrollment increases.

Most areas of expenses increased from 2003 to 2005. Salaries and Fringe Benefits increased \$240,393 in 2005 and \$125,124 in 2004 due to additional staffing and annual increases; Purchased Services decreased \$57,631 in 2005 and increased \$179,222 in 2004. Materials and Supplies increased \$58,906 in 2005 and decreased \$52,196 in 2004. Depreciation increased \$8,998 in 2005 and \$20,757 in 2004 due to an increase in capital assets in 2005 and 2004.

Capital Assets

As of June 30, 2005, the School District had capital assets of \$291,884 invested in furniture and equipment and leasehold improvements. This is a \$7,050 decrease over June 30, 2004.

The following schedule provides a summary of the School District's capital assets as of June 30, 2005, 2004 and 2003:

	2005	2004	2003
Capital Assets (Net of Depreciation)			
Furniture and Equipment	\$ 6,062	\$ 13,112	\$ 10,901
Leasehold Improvements	285,822	285,822	251,691
Construction-in-Progress	0	0	69,867
	<u>0</u>	<u>0</u>	<u>69,867</u>
Net Capital Assets	<u>\$ 291,884</u>	<u>\$ 298,934</u>	<u>\$ 332,459</u>

For more information on capital assets, see Note IV of the Notes to the Basic Financial Statements.

Current Financial Issues

Washington Park Community School had a total of 126 students, nine teaching staff members and expenses of \$1,514,573 for fiscal year ended June 30, 2005. As the School District matures, we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the School District's finances and to show the School District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact Ms. Beth Hargreaves, Treasurer, Newburgh Heights Community School Foundation, Inc., dba Washington Park Community School, 4000 Washington Park Boulevard, Newburgh Heights, Ohio 44105.

Newburgh Heights Community School Foundation, Inc., dba
Washington Park Community School
Cuyahoga County Ohio
Statements of Net Assets
June 30, 2005 and 2004

	2005	2004
Assets		
<i>Current assets:</i>		
Cash	\$ 381,973	\$ 184,087
Due from other governments	5,653	4,983
<i>Total current assets</i>	<u>387,626</u>	<u>189,070</u>
<i>Noncurrent assets:</i>		
Capital assets (net of accumulated depreciation)	291,884	298,934
<i>Total assets</i>	<u>679,510</u>	<u>488,004</u>
Liabilities		
<i>Current liabilities:</i>		
Accrued wages and benefits	100,024	73,596
Capital leases payable	0	565
<i>Total current liabilities</i>	<u>100,024</u>	<u>74,161</u>
Net assets		
Invested in capital assets	291,884	298,369
Unrestricted	287,602	115,474
<i>Total net assets</i>	<u>\$ 579,486</u>	<u>\$ 413,843</u>

See accompanying notes to the basic financial statements.

**Newburgh Heights Community School Foundation, Inc., dba
Washington Park Community School
Cuyahoga County, Ohio**

*Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal years Ended June 30, 2005 and 2004*

	2005	2004
Operating revenues		
Foundation payments	\$ 1,444,613	\$ 1,147,677
Other operating revenues	14,354	5,574
<i>Total operating revenues</i>	<u>1,458,967</u>	<u>1,153,251</u>
Operating expenses		
Salaries	828,375	669,135
Fringe benefits	213,634	132,481
Purchased services	252,157	309,788
Materials and supplies	151,338	92,432
Depreciation	48,627	39,629
Other operating expenses	20,442	2,447
<i>Total operating expenses</i>	<u>1,514,573</u>	<u>1,245,912</u>
<i>Operating income (loss)</i>	(55,606)	(92,661)
Non operating revenues (expenses)		
Federal and State subsidies	221,249	146,170
Private grants and contributions	0	3,627
<i>Total non-operating revenues (expenses)</i>	<u>221,249</u>	<u>149,797</u>
<i>Change in net assets</i>	165,643	57,136
<i>Net assets at beginning of year</i>	<u>413,843</u>	<u>356,707</u>
<i>Net assets at the end of the year</i>	<u>\$ 579,486</u>	<u>\$ 413,843</u>

See accompanying notes to the basic financial statements.

**Newburgh Heights Community School Foundation, Inc., dba
Washington Park Community School
Cuyahoga County, Ohio
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2005 and 2004**

	2005	2004
Increase (decrease) in cash		
Cash flows from operating activities:		
Cash received from State of Ohio	\$ 1,443,943	\$ 1,147,677
Cash payments to suppliers for goods and services	(403,495)	(420,359)
Cash payments to employees for services	(1,015,581)	(774,238)
Other operating revenues	14,354	5,574
Other operating expenses	(18,404)	(7,072)
<i>Net cash provided by (used for) operating activities</i>	<u>20,817</u>	<u>(48,418)</u>
Cash flows from non-capital financing activities:		
Federal and State grants received	221,249	155,027
Private grants and contributions	0	3,627
<i>Net cash provided by (used for) non-capital activities</i>	<u>221,249</u>	<u>158,654</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(43,615)	(6,104)
Cash payment on capital lease	(565)	(3,260)
<i>Net cash provided by (used for) investing activities</i>	<u>(44,180)</u>	<u>(9,364)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	197,886	100,872
<i>Cash and cash equivalents at beginning of year</i>	<u>184,087</u>	<u>83,215</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 381,973</u>	<u>\$ 184,087</u>
Reconciliation of operating income (loss) to net cash Provided By (Used For) Operating Activities:		
Operating income (loss)	\$ (55,606)	\$ (92,661)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	48,627	39,629
Donation of capital assets	2,038	0
(Increase) decrease in assets:		
Due from other governments	(670)	0
Increase (decrease) in liabilities:		
Accounts payable	0	(22,764)
Accrued wages and benefits	26,428	27,378
<i>Total adjustments</i>	<u>76,423</u>	<u>44,243</u>
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 20,817</u>	<u>\$ (48,418)</u>

See accompanying notes to the basic financial statements.

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**NEWBURGH HEIGHTS COMMUNITY SCHOOL FOUNDATION, INC., dba
WASHINGTON PARK COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005 and 2004**

I. Description of the School and Reporting Entity

Newburgh Heights Community School Foundation, Inc., dba, Washington Park Community School (the School) is a non-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new start-up school in Cleveland Municipal School District. The School, 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 School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the School. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School was approved for operation under contract with the State of Ohio for a period of five years commencing with the fiscal year ended June 30, 2001.

The School operates under the direction of a self-appointing, three-member Board of Trustees. The 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 Board controls the School's one instructional/support facility staffed by twelve noncertificated employees and nineteen certificated full-time teaching personnel who provide services to approximately 126 students.

II. Summary of Significant Accounting Policies

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. For the year ended June 30, 2005, the School has implemented GASB Statement No. 40 "*Deposit and Investment Risk Disclosures.*" The more significant of the School's accounting policies are described below.

1. 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.

2. Measurement Focus and 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

**NEWBURGH HEIGHTS COMMUNITY SCHOOL FOUNDATION, INC., dba
WASHINGTON PARK COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005 and 2004**

liabilities are included on the Statement of Net Assets. 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 financial records and reported in the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the School 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

All monies received are deposited in demand deposit accounts.

4. 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 School's contract with the Ohio Department of Education. The contract between the School and the Ohio Department of Education does not prescribe a budgetary process requirement.

5. Due From Other Governments

Moneys due the School for the year ended June 30, 2005 and 2004 are recorded as "Due From Other Governments". A current asset for the receivable is recorded at the time of the event causing the moneys to be due.

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The School does not possess any infrastructure.

Leasehold improvements are also 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 of furniture and equipment and leasehold improvements is computed using the straight-line method over their estimated lives. All items with a useful life of one year or greater and a value of \$500 or more are capitalized.

**NEWBURGH HEIGHTS COMMUNITY SCHOOL FOUNDATION, INC., dba
WASHINGTON PARK COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005 and 2004**

<u>Capital Asset Classification</u>	<u>Years</u>
Furniture and Equipment	5
Leasehold Improvements	5 - 39

7. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program (DPIA). 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.

Amounts awarded under the above named programs for the 2005 and 2004 school years totaled \$1,665,862 and \$1,293,847, respectively.

8. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, the School does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one day per month and cannot be carried into the subsequent year. No accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

9. Use of 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 these estimates.

III. Deposits

At fiscal years end June 30, 2005 and 2004, the carrying amount of the School's deposits totaled \$381,973 and \$184,087, respectively and its bank balances were \$398,165 and \$192,191, respectively. Of the bank balances:

1. \$100,000 was covered by the Federal Depository Insurance Corporation for each of the fiscal years ended June 30, 2005 and 2004. The Ohio Depository Act stipulates that FirstMerit Bank pledge collateral for the deposits of the School in a pool of securities under Section 135.181 of the Ohio Revised Code.
2. \$298,165 and \$92,191 was uninsured and uncollateralized for fiscal years ended June 30, 2005 and 2004. Although the securities serving as collateral were held by the pledging institution's name, and all

**NEWBURGH HEIGHTS COMMUNITY SCHOOL FOUNDATION, INC., dba
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005 and 2004**

State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

Interest Rate Risk: The School's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the School.

Credit Risk: The School had no investments during the fiscal year.

Concentration of Credit Risk: The School places no limit on the amount the School may invest in any one issuer. Deposits are either covered by the Federal Depository Insurance Corporation or secured with pledged collateral, held and in the name of the pledging institution, in which the investments are held.

Protection of School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

IV. Capital Assets

A summary of the School's capital assets at June 30, 2005 and 2004 follows:

	<u>Balance</u> <u>7/1/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2005</u>
Capital Assets, Being Depreciated:				
Furniture and Equipment	\$ 22,089	\$ 43,615	\$ (9,260)	\$ 56,444
Leasehold Improvements	342,159	0	0	342,159
Total Capital Assets, Being Depreciated	<u>364,248</u>	<u>43,615</u>	<u>(9,260)</u>	<u>398,603</u>
Less Accumulated Depreciation:				
Furniture and Equipment	(8,977)	(48,627)	7,222	(50,382)
Leasehold Improvements	<u>(56,337)</u>	<u>0</u>	<u>0</u>	<u>(56,337)</u>
Total Accumulated Depreciation	<u>(65,314)</u>	<u>(48,627)</u>	<u>7,222</u>	<u>(106,719)</u>
Total Capital Assets, Net	<u>\$ 298,934</u>	<u>\$ (5,012)</u>	<u>\$ (2,038)</u>	<u>\$ 291,884</u>

**NEWBURGH HEIGHTS COMMUNITY SCHOOL FOUNDATION, INC., dba
WASHINGTON PARK COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005 and 2004**

	Balance 7/1/2003	Additions	Deletions	Balance 6/30/2004
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 69,867	\$ 0	\$ (69,867)	\$ 0
Total Capital Assets, Not Being Depreciated	69,867	0	(69,867)	0
Capital Assets, Being Depreciated:				
Furniture and Equipment	15,985	6,104	0	22,089
Leasehold Improvements	272,292	69,867	0	342,159
Total Capital Assets, Being Depreciated	288,277	75,971	0	364,248
Less Accumulated Depreciation:				
Furniture and Equipment	(5,085)	(3,892)	0	(8,977)
Leasehold Improvements	(20,600)	(35,737)	0	(56,337)
Total Accumulated Depreciation	(25,685)	(39,629)	0	(65,314)
Total Capital Assets, Net	\$332,459	\$ 36,342	\$ (69,867)	\$298,934

V. Purchased Services

	2005	2004
Consulting Fees	\$ 123,448	\$ 89,388
General Services	128,709	219,150
Professional Development	0	1,250
Total	\$ 252,157	\$ 309,788

VI. Capital Lease Obligation

The School entered into a capitalized lease agreement for a copier. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards (FASB) 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 has been recorded at the present value of the future minimum lease payments as of the inception date of the lease. During fiscal year 2005, the final lease payment, of \$570 of which \$5 represented interest and \$565 represented principal, was paid in full.

VII. Risk Management

1. Property and Liability Insurance

The School 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 fiscal year 2005, the School contracted with Indiana Insurance Company for property and general liability insurance with a \$2,000,000 aggregate limit.

**NEWBURGH HEIGHTS COMMUNITY SCHOOL FOUNDATION, INC., dba
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2. Workers' Compensation

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

3. Employee Medical, Dental and Vision Benefits

The School has contracted with a private carrier to provide its full-time salaried employees medical/surgical benefits. The School paid premiums, up to \$250 per month per employee, for this coverage.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employee's Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations, for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005 and 2004 were \$30,800 and \$25,822, respectively; 51 percent has been contributed for fiscal year 2005 and 100 percent for fiscal year 2004.

2. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information for STRS Ohio. That report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2002. 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, 2005, plan members were required to contribute ten percent of their annual covered salaries. The School 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 School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005 and 2004 was \$69,052 and \$46,906; 75 percent has been contributed for fiscal year 2005 and 100 percent for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,796 made by the School and \$6,530 made by the plan members. \$17,944 represents the unpaid contribution for fiscal year 2005, which is reflected as "Accrued Wages and Benefits" in the accompanying financial statements.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

IX. Post-Employment Benefits

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System, (STRS), and to retired non-certificated employees and their dependents

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through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$5,668 during the 2005 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, the health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. Premiums are reduced by 50 percent for those retirees whose household income falls below federal poverty levels.

After allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2005 and 2004 fiscal years equaled \$12,968 and \$17,283, respectively.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005 were \$178,221,113 and the target level was \$335.2 million. At June 30, 2005, the SERS had net assets available for payment of health care benefits of \$267.5 million. The number of participants receiving health care benefits was approximately 58,123.

X. State School Funding Decision

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

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

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

XI. Contingencies

1. Grants

The School received financial assistance form Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting for such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

2. 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 Common Pleas Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals; the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment 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 conclusions of this review could result in state funding being adjusted. Based on ODE's review, there are no adjustments to the state funding received during fiscal year 2005.

XII. Rental Agreement

Effective May 16, 2003, the School entered into a new rental agreement with the Village of Newburgh Heights, Ohio, for the use of classrooms and office space. This agreement commenced on January 1, 2004 and was for the period of one year with renewal options every year for three years.

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Auditor of State Betty Montgomery

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

Board of Directors
Newburgh Heights Community School Foundation, Inc., dba
Washington Park Community School
Cuyahoga County
4000 Washington Park Boulevard
Newburgh Heights, Ohio 44105

We have audited the financial statements of the Washington Park Community School, Cuyahoga County, Ohio, (the School) as of and for the years ended June 30, 2005 and June 30, 2004, and have issued our report thereon dated April 3, 2006. 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 School's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audit may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated April 3, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the School'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*. In a separate letter to the School's management dated April 3, 2006, we reported another matter related to noncompliance we deemed immaterial.

Washington Park Community School
Cuyahoga County
Independent Accountants' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

We intend this report solely for the information and use of the audit committee, management and the Board of Directors. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 3, 2006



**Auditor of State
Betty Montgomery**

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**WASHINGTON PARK COMMUNITY SCHOOL
CUYAHOGA 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 9, 2006**