



**Auditor of State
Betty Montgomery**

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Mound Street Health Careers Academy
Montgomery County
354 Mound Street
Dayton, Ohio 45407

To the Board of Governance:

We have audited the accompanying financial statements of the Mound Street Health Careers Academy (the Academy), Montgomery County, as of and for the year ended June 30, 2003, 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 *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 February 12, 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".

Betty Montgomery
Auditor of State

February 12, 2004

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**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

Assets

Current assets:

Cash and cash equivalents	\$445,358
Receivables:	
Accounts receivable	100,010
Intergovernmental receivable	20,252
Prepaid expenses	5,909
	<hr/>

Total current assets 571,529

Noncurrent assets:

Fixed assets, net of accumulated depreciation	132,731
	<hr/>

Total assets 704,260

Liabilities and equity

Current liabilities:

Accounts payable	7,210
Accrued wages & benefits payable	25,727
Intergovernmental payable	15,054
Compensated absences payable	5,088
	<hr/>

Total current liabilities 53,079

Long-term liabilities:

Capital lease payable	112,450
	<hr/>

Total liabilities 165,529

Equity:

Retained earnings	538,731
	<hr/>

Total liabilities and equity \$704,260

See accompanying notes to the financial statements.

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Operating revenues:	
Foundation payments	\$675,632
Miscellaneous revenue	205,639
	881,271
Total operating revenues	881,271
Operating expenses:	
Salaries	368,355
Fringe benefits	83,614
Fiscal Agent fees	20,594
Building rental	16,680
Other purchased services	100,439
Materials and supplies	21,261
Depreciation	32,038
Other	2,346
	645,327
Total operating expenses	645,327
Operating income	235,944
Nonoperating revenues (expenses):	
State and federal grant revenue	320,564
Interest earnings	1,861
Interest expense	(6,984)
	315,441
Net nonoperating revenues (expenses)	315,441
Net income	551,385
Accumulated Deficit, beginning of year	(12,654)
Retained earnings, end of year	\$538,731

See accompanying notes to the financial statements.

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Increase In Cash and Cash Equivalents

Cash Flows From Operating Activities

Cash from State of Ohio	\$675,632
Cash payments to suppliers for goods and services	(169,490)
Cash payments to employees for services and benefits	(409,283)
Other operating revenue	105,629
	105,629

Net cash provided by operating activities	202,488
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Cash Flows From Noncapital Financing Activities

Federal and state subsidies	300,312
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Cash Flows From Noncapital Financing Activities

Related Financing Activities

Principal paid on capital lease	(52,319)
Interest paid on capital lease	(6,984)
	(6,984)

Net cash used by capital and related financing activities	(59,303)
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Cash Flows From Investing Activities

Interest on investments	1,861
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Net Increase in Cash and Cash Equivalents	445,358
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Cash and Cash Equivalents, Beginning of Year	0
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Cash and Cash Equivalents, End of Year	445,358
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Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	235,944
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	32,038
Changes in assets and liabilities:	
Increase in accounts receivable	(100,010)
Increase in prepaid expenses	(4,133)
Increase in accounts payable	(4,552)
Increase in accrued wages payable	24,554
Increase in intergovernmental payable	13,559
Increase in compensated absences payable	5,088
	5,088

Total Adjustments	(33,456)
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Net Cash Provided by Operating Activities	\$202,488
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The Academy acquired fixed assets of \$164,769 through a capital lease during the period.

See accompanying notes to the financial statements.

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**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Mound Street Health Careers Academy (the Academy) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The Academy, which is part of the State's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy contracted with Montgomery County Educational Service Center (MCESC) for a variety of services including Ohio Department of Education consulting, Education Management Information System (EMIS) monitoring and consulting, technology and operational support for the period ended June 30, 2003. The Academy paid the MCESC \$10,000 in fiscal fees, \$3,974 for salary reimbursements, \$3,198 for computer usage, \$1,776 for insurance reimbursement, and \$1,646 in miscellaneous fees, totaling \$20,594 during the year. The contract with the MCESC was discontinued as of July 1, 2003 and the School entered into a contract with PACE School Resource Center (SRC) to provide transition, treasurer and financial management services for a twelve month period beginning June 16, 2003, for a monthly service fee of \$3,500.00. SRC was subsequently separated from PACE and was renamed Keys to Improving Dayton Schools, Inc. without any further changes to services or cost.

The Academy was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2002 through June 30, 2007 after which, the Academy must apply for an additional contract with the Sponsor. The Academy operates under a self-appointing six-member Board of Governors (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor member by a majority vote of the then existing members. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility staffed by one superintendent, six certified teaching personnel and five non-certified support personnel who provide services to an enrollment of 113 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, 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

Enterprise accounting is used to account for operations that are financed and operated in 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.

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus And Basis Of Accounting

The accounting and financial reporting treatment applied is determined by the 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. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings. The operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings.

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 utilized 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 Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract, however the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

The Academy's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The Academy Superintendent and Treasurer are responsible for ensuring that purchases are made within these limits. However, any variances from the budgetary amounts are presented to the Board for subsequent approval.

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash.

E. 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.

F. Fixed Assets And Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of \$1,000. The Academy does not have 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 the asset's life are expensed.

Depreciation of equipment is computed using the straight-line method over estimated useful life of five years.

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants 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 and an additional \$100,000 during the year ended June 30, 2003. Revenue from this program was used during fiscal year 2003 for activities of the startup phase of the Academy.

Amounts awarded under the above programs for the 2003 school year totaled \$996,196.

H. Compensated absences

The Academy's superintendent, teachers and staff earn sick and personal leave each year. The superintendent, teachers and staff are not allowed to carry over any unused personal leave to subsequent school years. A liability of \$5,088 has been recognized for earned but unused sick leave at June 30, 2003.

I. Accrued liabilities payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2003, including:

Wages payable – salary payments made after year-end for services rendered in fiscal year 2003. Teaching personnel are paid in 26 equal installments, ending with the last payroll in June, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2003 for the first salary payment made to personnel in the month of July 2003.

Intergovernmental payable – relates to payment for the employer's share of the retirement contribution (\$15,054) associated with services rendered during fiscal year 2003, but not paid until the subsequent fiscal year.

J. Federal Tax Exemption Status

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. ACCUMULATED DEFICIT

The Montgomery County Educational Service Center paid for various startup expenditures on behalf of the Academy prior to July 1, 2002. This resulted in an accumulated deficit of \$12,654 at the beginning of the year. The Academy repaid the Montgomery County Educational Service Center in August 2002 after receipt of the Academy's startup funds.

4. DEPOSITS AND INVESTMENTS

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements." During fiscal year 2003, the Academy did not have any investments.

Deposits: At June 30, 2003, the carrying amount of the Academy's deposits was \$445,358 and the bank balance was \$459,537. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

5. FIXED ASSETS

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

Computer	\$	164,769
Less: Accumulated Depreciation		<u>(32,038)</u>
Fixed Assets, net	\$	<u><u>132,731</u></u>

6. RISK MANAGEMENT

A. Property and liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the Academy contracted with Cincinnati Insurance Company for business personal property, director and officer liability, and general liability insurance. Business personal property coverage carries a \$250 deductible and has a \$1,000,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate.

B. Employee insurance benefits – The Academy offers health and dental insurance benefits to employees of which the Academy pays 90% and the employee pays 10% of the premiums. The Academy also offers life insurance to its employees of which it pays 100% of the premiums. These benefits are administered by Anthem.

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly 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 43215-3476.

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 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2003 were \$2,156; 36 percent has been contributed for the fiscal year.

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. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years credited service that 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. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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 for the fiscal year ended June 30, 2003 was \$45,099; 83 percent has been contributed for fiscal year 2003. \$8,616 representing the unpaid contribution for fiscal year 2003 is recorded as an intergovernmental payable.

8. POST-EMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary 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. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$3,221 during the 2003 fiscal year. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002.

For the year ended June 30, 2002 (latest information available), net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. 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. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, the allocation rate is 5.83 percent. 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 the surcharge, was \$7,336 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 for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits of \$303.6 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

9. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and 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 result of this review indicated an immaterial underpayment to the Academy of \$21,376.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the Academy is not presently determinable.

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED 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 its financial operations.

11. CAPITALIZED LEASES – LESSEE DISCLOSURE

The Academy entered into a capital lease for computer equipment along with the Mound Street Information Technology Academy and the Mound Street Military Academy. This 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. Capital lease payments are recorded reduction in the liability on the balance sheet. Amortization applicable to assets acquired through capital lease arrangements is included with depreciation for financial statement presentation.

Capital assets acquired by lease have been capitalized in the balance sheet in the amount of \$164,769, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded as a capital lease payable on the balance sheet. Principal payments in fiscal year 2003 totaled \$52,319.

The following is a schedule of the future minimum lease payments for the Academy required under the capital lease and the present value of the minimum lease payments as of June 30, 2003.

<u>Year</u>	
2004	\$ 33,656
2005	33,656
2006	33,656
2007	33,656
2008	<u>2,805</u>
	137,429
Less: Amount representing interest	<u>(24,979)</u>
Total present value of minimum lease payments \$	<u>\$112,450</u>

12. OPERATING LEASE

The Academy, along with the Mound Street Information Technology Academy and Mound Street Military Academy, leased its facilities from the Reynolds and Reynolds Company under a one-year lease agreement beginning July 2002 through June 2003. Rent was charged at \$1 per month and utilities represented the remaining expense for fiscal year 2003 of \$16,667 for the Academy. The City of Dayton, Ohio bought the facilities after the fiscal year end and the terms of the lease are not expected to change through June 30, 2004.

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

13. RELATED PARTIES

The Board of Trustees, Superintendent and Accounting Manager of Mound Street Health Careers Academy serve in the same capacity for Mound Street Information Technology Academy and Mound Street Military Academy. There were no payments between the Academies during the year, however the Academies jointly entered into leasing agreement for property and equipment as outlined in Notes 11 and 12.

14. OTHER PURCHASED SERVICES

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

Professional and technical services	\$89,759
Data processing services	2,528
Legal services	303
Property services	6,211
Other	<u>1,638</u>
Total	<u><u>\$100,439</u></u>

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Auditor of State Betty Montgomery

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

Mound Street Health Careers Academy
Montgomery County
354 Mound Street
Dayton, Ohio 45407

To the Board of Governance:

We have audited the financial statements of Mound Street Health Careers Academy (the Academy) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 12, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted immaterial instances of noncompliance that have been reported to the management of the Academy in a separate letter dated February 12, 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 certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated February 12, 2004.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
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www.auditor.state.oh.us

Mound Street Health Careers Academy
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
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This report is intended for the information and use of the management, the Board of Governance, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 12, 2004

**MOUND STREET HEALTH CAREERS ACADEMY
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2003**

FINDING NUMBER 2003-001

Finding For Recovery – Agreement To Repay

The Board hired Sharifa Rowe on January 8, 2003, at a salary of \$30,992 for a 195 day contract year. Payroll testing noted that instead of dividing the salary amount by 195 working days to arrive at the daily rate, the academy used 185 days, which resulted in a daily rate overpayment of \$8.59. Ms. Rowe worked a total of ninety-three days resulting in an overpayment of \$798.

In accordance with the forgoing facts, and according to Ohio Rev. Code Section 117.28, a Finding for Recovery for funds illegally expended is hereby issued against Sharon Kindred, Treasurer, and her bonding company, the Ohio Casualty Insurance Company, and Sharifa Rowe, jointly and severally, in the amount of seven hundred and ninety-eight dollars (\$798.00), in favor of the Academy's General Fund. On October 22, 2003, after the discovery of overpayment, the Superintendent requested the Treasurer to deduct the aforesaid amount "in equal payments over the remainder of fiscal year 2004 and the 26 pays of fiscal year 2005, beginning with the check of November 14, 2003. If for any reason, Sharifa does not return for the 2004-2005 school year, the balance should be deducted from her final check of the 2003-2004 school year". This agreement has been signed-off on by Sharifa Rowe.

The Academy should institute procedures to provide that all employees are paid in accordance with the Board approved schedule and in right amounts. Additionally, the payroll should be periodically reviewed by someone independent of the payroll process.

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**Auditor of State
Betty Montgomery**

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MOUND STREET HEALTH CAREERS ACADEMY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 13, 2004**