URBAN YOUTH ACADEMY, INC.
CLARK COUNTY

INITIAL AUDIT

FOR THE PERIOD SEPTEMBER 1, 2004 TO JUNE 30, 2005

Auditor of State
Betty Montgomery

URBAN YOUTH ACADEMY, INC.
CLARK COUNTY

TABLE OF CONTENTS

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Urban Youth Academy, Inc.
Clark County
1408 Clifton Ave.
Springfield, Ohio 45505

To the Board of Directors:

We have audited the accompanying basic financial statements of the Urban Youth Academy, Inc., Clark County, (the Academy), as of and for the period ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2005, and the changes in its financial position and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As shown in the accompanying financial statements for the period ended June 30, 2005, the Academy has incurred a working capital deficiency of $2,962. Accordingly, there is substantial doubt about the School's ability to continue as a going concern.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2006, 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 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We 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.

Betty Montgomery

Betty Montgomery
Auditor of State

April 19, 2006

URBAN YOUTH ACADEMY, INC.
CLARK COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD SEPTEMBER 1, 2004 TO JUNE 30, 2005
UNAUDITED

The discussion and analysis of Urban Youth Academy, Inc.'s (the Academy) financial performance provides an overall view of the Academy's financial activities for the period September 1, 2004 to June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance. This is the initial period of operations for the Academy.

Financial Highlights

- Total Assets were $64,776.
- Total Liabilities were $50,398.
- Total Net Assets were $14,378.

Using this Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2005?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets at June 30, 2005. As this is the initial period of the Academy, comparisons to the prior year are not shown:

Table 1
Net Assets

Assets	
Current Assets	$47,436
Non-current Assets	
Security Deposits	5,000
Capital Assets, Net	12,340
Total Assets	64,776
Liabilities	
Current Liabilities	50,398
Total Liabilities	50,398
Net Assets	
Invested in Capital Assets	12,340
Restricted for Special Purposes	8,000
Unrestricted	(5,962)
Total Net Assets	$14,378

The Statement of Revenues, Expenses, and Change in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

Table 2
Change in Net Assets

Operating Revenue	
Foundation Payments	$441,601
Special Education	19,846
Total Operating Revenues	461,447
Operating Expenses	
Salaries	243,133
Fringe Benefits	50,270
Purchased Services	134,473
Materials and Supplies	17,457
Depreciation Expense	759
Other Operating Expense	3,977
Total Operating Expenses	450,069
Operating Income	11,378
Non-Operating Revenues and (Expenses)	
Operating Grants - State	3,000
Total Non-Operating Revenues and (Expenses)	3,000
Change in Net Assets	$14,378

State Foundation Payments and Special Education, as a whole, are the primary support for the Academy, representing 100 percent of the operating revenue. Salaries and Fringe Benefits comprise 65.2 percent of operating expenses.

The Academy had total revenues of $464,447, and total expenses of $450,069. The change in net assets for the year was an increase of $14,378. This increase was due to an accrual for foundation payments representing a final, positive adjustment from the Ohio Department of Education for fiscal year 2005, to be received during fiscal year 2006. This increase is partially offset by accruals for salary and benefits for teachers who have incurred costs through June 30, 2005 and will be paid during July and August after the period ended.

Capital Assets

At the end of period June 30, 2005, the Academy had $12,340 (net of $759 in accumulated depreciation) invested in furniture and equipment. Table 3 shows balances at June 30, 2005:

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

Computers	$8,419
Furniture, Fixtures, and Equipment	3,921
Totals	$12,340

For more information on capital assets, see note 4 to the basic financial statements.

Current Financial Issues

The inclusion of the Lucas County Educational Service Center as the Academy's fiscal agent greatly improves its internal control structure and the quality of its financial records. During the period September 1, 2004 to June 30, 2005, there were approximately 61 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for this period amounted to $5,058 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Mrs. Joanna Ward or Mr. Michael Ward at Urban Youth Academy, Springfield, Ohio at (937) 324-4105 or e-mail at michael.ward@urbanmd.biz.

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URBAN YOUTH ACADEMY, INC.
CLARK COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005

Assets	
Current Assets:	
Cash and Cash Equivalents	$13,340
Intergovernmental Receivable	34,096
Total Current Assets	47,436
Noncurrent Assets:	
Security Deposits	5,000
Capital Assets, Net	12,340
Total Noncurrent Assets	17,340
Total Assets	64,776
Liabilities	
Current Liabilities:	
Accounts Payable	17,698
Accrued Wages and Benefits Payable	32,700
Total Current Liabilities	50,398
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,340
Restricted for Special Purposes	8,000
Unrestricted	(5,962)
Total Net Assets	$14,378

See Accompanying Notes to the Basic Financial Statements.

URBAN YOUTH ACADEMY, INC.
CLARK COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE PERIOD SEPTEMBER 1, 2004 TO JUNE 30, 2005

Operating Revenues:	
Foundation Payments	$441,601
Special Education	19,846
Total Operating Revenues	461,447
Operating Expenses:	
Salaries	243,133
Fringe Benefits	50,270
Purchased Services	134,473
Materials and Supplies	17,457
Depreciation	759
Other Operating Expenses	3,977
Total Operating Expenses	450,069
Operating Income	11,378
Non-Operating Revenues:	
Operating Grants	3,000
Change in Net Assets	14,378
Net Assets, September 1, 2004	0
Net Assets, June 30, 2005	$14,378

See Accompanying Notes to the Basic Financial Statements.

URBAN YOUTH ACADEMY, INC.
CLARK COUNTY

STATEMENT OF CASH FLOWS
FOR THE PERIOD SEPTEMBER 1, 2004 TO JUNE 30, 2005

Increase in Cash and Cash Equivalents:	
Cash Flow from Operating Activities:	
Cash Received from State of Ohio	$427,351
Cash Payments to Suppliers for Goods and Services	(134,894)
Cash Payments to Employees for Services	(209,392)
Cash Payments for Employees Benefits	(50,649)
Cash Payments for Other Operating Uses	(3,977)
Net Cash Provided by Operating Activities	28,439
Cash Flows from Noncapital Financing Activities:	
Operating Grants - State	3,000
Cash Flows from Capital and Related Financing Activities:	
Proceeds from the Sale of Notes	42,000
Payments for Capital Acquisitions	(13,099)
Principal Payments	(42,000)
Net Cash Used for Capital and Related Financing Activities	(13,099)
Net Increase in Cash and Cash Equivalents	18,340
Cash and Cash Equivalents, September 1, 2004	0
Cash and Cash Equivalents, June 30, 2005	18,340
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	11,378
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	759
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(34,096)
Increase in Accounts Payable	17,698
Increase in Accrued Wages	32,700
Total Adjustments	17,061
Net Cash Provided by Operating Activities	$28,439

See Accompanying Notes to the Basic Financial Statements.

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1. DESCRIPTION OF THE REPORTING ENTITY

Urban Youth Academy, Inc., Clark County, (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy serves as a community resource helping individuals toward academic success, personal goal attainment, and overcoming risk barriers that will lead to a successful Future. The Academy is dedicated to providing the best possible academic experiences to students in combination of vocational and work-based learning programs. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing September 1, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the Academy (See Note 11).

The Academy operates under the direction of a 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 five non-certified and two certificated full time teaching personnel who provide services to 61 students.

The Academy is in the process of obtaining tax exempt status under Section 501(c)(3) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before September 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and change in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

E. 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.

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

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are 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 expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy does not maintain a capitalization policy and does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Computers	5
Furniture, Fixtures and Equipment	5

H. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has no debt.

The amount reflected as "Restricted for Special Purposes" represents state grants and lease security deposits. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Operating Revenues and Expenses

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

J. Estimates

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

3. DEPOSITS

For the period ending June 30, 2005, the carrying amount of the Academy's deposits was $13,340, and the bank balance was $25,796. Of the bank balance, $25,796 was covered by federal depository insurance. The Academy also had security deposits for leases. (See Note 13.)

4. RECEIVABLES

Intergovernmental receivable as of June 30, 2005, consists of a positive adjustment to the Academy's foundation payment revenue for the period September 1, 2004 to June 30, 2005. This resulted from a review conducted subsequent to June 30, 2005, by the Ohio Department of Education for the period.

5. CAPITAL ASSETS

Capital asset activity for the period September 1, 2004 to June 30, 2005, was as follows:

	Balance 9/1/2004	Additions	Deductions	Balance 6/30/2005
Capital Assets:				
Computers	$ -	$ 8,872	$ -	$ 8,872
Furniture and Equipment	-	4,227	-	4,227
Totals Capital Assets	-	13,099	-	13,099
Less Accumulated Depreciation:				
Computers & Furniture and Equipment	-	(759)	-	(759)
Total Accumulated Depreciation	-	(759)	-	(759)
Capital Assets, Net	$ -	$ 12,340	$ -	$ 12,340

6. RISK MANAGEMENT

A. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ending June 30, 2005, the Academy contracted with the Wallace & Turner, Inc. for commercial insurance and liability insurance.

The Academy owns no property, but leased facilities from Urban Light Ministries, Inc., Clifton Avenue Church of God and Arlington Towers Co., Inc. during this period. (See Note 13)

B. Workers' Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description. 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 contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

7. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy. For the period September 1, 2004 to June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The employer rate for the period ending June 30, 2005 was 14 percent of annual covered payroll; 10.57 percent 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 contributions for pension obligations to SERS for the period ending June 30, 2005 was $14,121; 100 percent has been contributed for the period September 1, 2004 to June 30, 2005.

B. State Teachers Retirement Systems

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has: (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

7. DEFINED BENEFIT PENSION PLANS (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

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 an 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.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate 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.

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the period September 1, 2004 to June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The Academy's required contribution for pension obligations for the period September 1, 2004 to June 30, 2005 was $9,854; 100 percent has been contributed for the period September 1, 2004 to June 30, 2005.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2005 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS 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. 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.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43 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 2005, the minimum pay was 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.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were $178,221,113. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168% of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the year ended June 30, 2005, the Board allocated employer contributions equal to 3.43 percent of covered payroll in addition to the surcharge due to the Health Care Reserve Fund. The amount to fund health care benefits for the Academy, including surcharge, equaled $8,501 for the period September 1, 2004 to June 30, 2005.

8. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All 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 eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005. For the Academy, this amount equaled $758 for the period September 1, 2004 to June 30, 2005.

For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

9. 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.

10. CONTINGENCIES

A. Grants

The Academy received financial assistance from 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Academy at June 30, 2005.

10. CONTINGENCIES (Continued)

B. School Funding

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. One review was conducted for the period ended June 30, 2005 which resulted in a positive funding adjustment of $34,096. This amount is reflected as an intergovernmental receivable on the accompanying financial statements.

C. Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision 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 arguments occurred November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

11. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center (the Sponsor) to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Sponsor two percent (2%) of the per pupil allotment paid to the Academy from the State of Ohio. Total contract payments of $7,088 were paid during the period September 1, 2004 to June 30, 2005, and a liability in the amount of $1,519 was accrued as a liability at the period ending June 30, 2005.

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

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;

- Maintain all books and accounts of the Academy;

- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;

- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;

- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and

11. FISCAL AGENT (Continued)

- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

12. PURCHASED SERVICES

For the period September 1, 2004 to June 30, 2005, purchased service expenses were payments for services rendered by various vendors, and were as follows:

Professional and Technical Services	$61,916
Sponsor and Fiscal services	9,224
Training	4,810
Legal services	2,500
Property Services	46,705
Communications	2,977
Utilties	6,341
Total Purchased Services	$134,473

13. OPERATING LEASES – LESSEE DISCLOSURE

The Academy made lease payments to Urban Light Industries in the amount of $22,500 and Clifton Avenue Church of God in the amount of $5,833 to lease space to house the students of the Academy. Payments made totaled $28,333 for the period September 1, 2004 to June 30, 2005. Additionally, the Academy has recorded a payable to the Clifton Avenue Church of God for $2,917 which is reflected as part of accounts payable on the accompanying financial statements.

The Academy made lease payments to Herbert Dooley in the amount of $2,100 and to Givens Landscaping in the amount of $3,850 for building usage for the construction academic program.

The Academy placed $1,000 as a security deposit with Herbert Dooley. Additionally, the Academy placed a $4,000 security deposit with Arlington Towers, Inc. for building rental. The Arlington Towers, Inc. space will be used to provide space to house certain vocational programs of the Academy beginning during the fiscal year ended June 30, 2006. The total of $5,000 is reflected as Security Deposits on the accompanying financial statements.

Required future minimum payments according to the agreements are as follows:

Fiscal Year	Church of God Lease	Arlington Towers, Inc. Lease
2006	$35,004	$30,000
2007	35,004	36,000
2008	8,751	36,000
2009		43,330
2010		44,796
2011		7,466
Total future minimum payments:	$78,759	$197,592

14. SUBSEQUENT EVENTS

The Academy approved motions on March 24, 2006 to change its sponsor effective on April 12, 2006, and treasurer effective on July 1, 2006.

On August 23, 2005, the Academy entered into a loan agreement with Samual and Imogene Wollum for $20,000, with interest payable on the unpaid principal at the rate of 15.0 percent per annum, calculated monthly not in advance.

15. SHORT – TERM OBLIGATIONS

The Academy issued $42,000 in short term loans during the year for start up costs. The loans were retired during the fiscal year.

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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*

Urban Youth Academy, Inc.
Clark County
1408 Clifton Ave.
Springfield, Ohio 45505

To the Board of Directors:

We have audited the financial statements the business-type activities of the Urban Youth Academy, Inc., Clark County, (the Academy), as of and for the period ended June 30, 2005, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 19, 2006 wherein we noted the School has negative working capital that raises substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Government's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-002.

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 audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We also consider the reportable condition listed above to be a material weakness**.** In a separate letter to the Academy's management dated April 19, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Academy's management dated April 19, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

Betty Montgomery

Betty Montgomery
Auditor of State

April 19, 2006

SCHEDULE OF FINDINGS
SEPTEMBER 1, 2004 TO JUNE 30, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2005-001

Finding for Recovery – Repaid Under Audit

Duplicate reimbursements were made to Michael Ward, former Chief Executive Officer, for expenses incurred for the Academy. Two invoices for building supplies were submitted for reimbursement and were processed as part of check number 5059, dated April 29, 2005, and check number 5068, dated May 11, 2005. The total amount of duplicate payment was $531.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery of public monies is hereby issued against Michael Ward, former Chief Executive Officer of the Urban Youth Academy, in the amount of five hundred and thirty-one dollars ($531) in favor of the Academy's General Fund.

This finding for recovery was repaid by Mr. Ward on February 10, 2006 on the Academy's receipt number 151. The Academy should implement procedures to provide that duplicate payments are not made in the future, including only making payments from original invoices and requiring receipts for all reimbursements.

FINDING NUMBER 2005-002

Reportable Condition – Going Concern

The Academy incurred a working capital deficiency of $2,962 as of June 30, 2005 which represents 6.2% of the total current assets and 21% net assets, which indicates a lack of routine monitoring of the financial activity of the Academy. Additionally, as of April 7, 2006, the fund balance for the Academy totaled $2,313 but the outstanding encumbrances totaled $10,150. This condition resulted in an unencumbered fund balance of ($7,837) and could restrict the Academy's ability to meet its obligations and operate in the future.

Accordingly, there is substantial doubt about the Academy's ability to continue as a going concern. Management should develop and implement a detailed plan regarding this situation. Procedures should then be developed and implemented to monitor the progress of this plan and all future financial activity to prevent the improper obligation of funds/assets.

Auditor of State
Betty Montgomery

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URBAN YOUTH ACADEMY

CLARK 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
JUNE 6, 2006