

Mound Street Military Careers Academy

Montgomery County, Ohio

Regular Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

**BALESTRA, HARR & SCHERER, CPAs, Inc.**

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

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**Auditor of State  
Betty Montgomery**

Governing Board  
Mound Street Military Careers Academy  
354 Mound Street  
Dayton, Ohio 45402

We have reviewed the *Independent Auditor's Report* of the Mound Street Military Careers Academy, Montgomery County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Mound Street Military Careers Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

May 9, 2006

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**Mound Street Military Careers Academy**  
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*For the Fiscal Year Ended June 30, 2005*

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# BALESTRA, HARR & SCHERER, CPAs, Inc.

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Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

## Independent Auditor's Report

Mound Street Military Careers Academy  
Montgomery County, Ohio  
354 Mound Street  
Dayton, Ohio 45402

We have audited the financial statements of the business-type activities of the Mound Street Military Careers Academy (the Academy), Montgomery County, as of and for the year ended June 30, 2005, which comprise the Academy's basic financial statements 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 the 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 business-type activities of the Academy, as of June 30, 2005, and the respective changes in financial position and cash flows thereof, 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 17, 2006, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3 to the basic financial statements, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
February 17, 2006

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
(Unaudited)

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The discussion and analysis of Mound Street Military Careers Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

### **Financial Highlights**

Key financial highlights for fiscal year 2005 are as follows:

- Total net assets increased \$278,300 in fiscal year 2005, which represents a 21.63% increase from fiscal year 2004, as a result of the Academy continuing to be fiscally responsible with regards to managing the Academy funds.
- Total assets increased \$286,029 which represents a 19.97% increase from the prior year. The increase is primarily due to the purchase of investments and the building which houses the Academy.
- The operating income reported for fiscal year 2005 in the amount of \$162,449 was \$147,897 less than the operating income reported for fiscal year 2004 or a 47.66% decrease. This decrease is due largely in part to an increase in materials and supplies and depreciation expense.

### **Using this Financial Report**

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation are the same.

#### *Statement of Net Assets*

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

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy's building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
(Unaudited)

Table 1 provides a summary of the Academy's net assets for fiscal year 2005 compared with fiscal year 2004.

**TABLE 1**  
**NET ASSETS**

	<u>2005</u>	<u>2004</u>
<b>ASSETS:</b>		
Current and other assets	\$ 1,359,401	1,310,280
Capital assets, net	<u>358,925</u>	<u>122,017</u>
Total assets	<u>1,718,326</u>	<u>1,432,297</u>
<b>LIABILITIES:</b>		
Current liabilities	116,015	64,334
Noncurrent liabilities	<u>37,076</u>	<u>81,028</u>
Total liabilities	<u>153,091</u>	<u>145,362</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	295,867	33,034
Restricted	661,899	283,468
Unrestricted	<u>607,469</u>	<u>970,433</u>
Total net assets	<u>\$ 1,565,235</u>	<u>1,286,935</u>

Total net assets of the Academy increased by \$278,300 or 21.63%. The increase in total net assets from fiscal year 2004 is due in part to the purchase of the building as well as an increase in various grants received by the Academy during fiscal year 2005. The \$286,029 increase in total assets is attributable to the purchase of investments and the purchase of the building that houses the Academy. Total liabilities reported at June 30, 2005 increased by \$7,729 from the amount reported at June 30, 2004, primarily due to an increase in the amount of accrued wages reported at June 30, 2005.

As noted in Table 1 above, reported invested in capital assets, net of related debt and restricted net assets at June 30, 2005 increased significantly from amounts reported at June 30, 2004. The amount reported as invested in capital assets, net of related debt increased due to the purchase of the building from the City of Dayton and the payments made on the capital lease for equipment. The \$378,431 increase in restricted net assets is the result of the Academy receiving increased allocation for federal and state educational grant programs for fiscal year 2005. Unrestricted net assets decreased by \$362,964 during fiscal year 2005. The decrease in is direct correlation with the increase in the invested in capital assets, net of related debt due to the use of funds to purchase the assets along with an increase in the amount of materials and supplies needed once the building was acquired. Additionally, the Academy continued to receive unrestricted operating grants from the Sinclair Foundation during fiscal year 2005.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005, as well as revenue and expense comparisons to fiscal year 2004.

**TABLE 2**  
**CHANGE IN NET ASSETS**

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Foundation payments	\$ 952,189	833,508
Other operating revenues	187,067	208,243
Non-operating revenues:		
State and federal grants	114,353	409,630
Interest earnings	<u>9,230</u>	<u>4,827</u>
Total revenues	<u>1,262,839</u>	<u>1,456,208</u>
Operating expenses:		
Salaries	480,945	418,281
Fringe benefits	119,666	63,115
Fiscal services	28,000	14,583
Building rental	8,333	41,377
Other purchased services	58,852	90,763
Materials and supplies	153,879	34,890
Depreciation	99,731	55,557
Other expenses	27,401	12,839
Non-operating expenses:		
Interest expense	<u>7,732</u>	<u>10,189</u>
Total expenses	<u>984,539</u>	<u>741,594</u>
Change in net assets	278,300	714,614
Net assets, beginning of year	<u>1,286,935</u>	<u>572,321</u>
Net assets, end of year	\$ <u>1,565,235</u>	<u>1,286,935</u>

The increase in State foundation payments noted for fiscal year 2005 is the result of an increase in the number of students enrolled in the Academy as well as increases in the per pupil funding amount for fiscal year 2005. During fiscal year 2004, the Academy received federal and state start-up grants totaling \$300,000 as compared to not receiving any start-up funds for fiscal year 2005. During fiscal year 2005, the Academy continued to receive unrestricted operating grants from the Sinclair Foundation.

Most of the higher salary and benefit expenses reported for fiscal year 2005 results from an additional staff position to accommodate the increased number of students. The Academy also experienced increased costs related to materials and supplies.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
(Unaudited)

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**Capital Assets**

At June 30, 2005 the capital assets of the Academy consisted of the building in the amount of \$162,883 off-set by \$3,146 in accumulated depreciation and furniture and equipment amounting to \$383,368 with accumulated depreciation of \$184,180 resulting in net capital assets of \$358,925. The Academy purchased the building it was renting from the City of Dayton for \$162,883 and also purchased new computers and other technology equipment amounting to \$173,756. Depreciation expense for the fiscal year ended June 30, 2005 amounted to \$99,731 as compared to \$55,557 for the fiscal year ended June 30, 2004.

See Note 5 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

**Capital Lease**

At June 30, 2005, the only debt of the Academy was one capital lease with an outstanding balance of \$63,058, of which \$28,639 is due within one year. This lease consists of computer equipment and has been capitalized as capital assets. Principal payments for fiscal year 2005 totaled \$25,925.

See Note 11 of the notes to the basic financial statements for more detailed information on the Academy's capital lease.

**Contacting the Academy**

This financial report is designed to provide a general overview of the finances of Mound Street Military Careers Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to:

Mound Street Military Careers Academy  
Attn: Treasurer  
354 Mound Street  
Dayton, Ohio 45402  
(937) 223-3041

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Statement of Net Assets

June 30, 2005

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**ASSETS:**

**Current Assets:**

Cash and cash equivalents	\$ 963,062
Investments	295,000
Receivables:	
Accounts	90,088
Intergovernmental	<u>11,251</u>
Total current assets	1,359,401

**Noncurrent Assets:**

Capital assets, net of accumulated depreciation	<u>358,925</u>
 Total assets	 <u>1,718,326</u>

**LIABILITIES:**

**Current Liabilities:**

Accounts payable	10,819
Accrued wages & benefits payable	65,300
Intergovernmental payable	11,257
Capital lease payable - current portion	<u>28,639</u>
Total noncurrent liabilities	<u>116,015</u>

**Noncurrent Liabilities:**

Compensated absences payable	2,657
Capital lease payable - noncurrent portion	<u>34,419</u>
Total noncurrent liabilities	<u>37,076</u>
 Total liabilities	 <u>153,091</u>

**NET ASSETS:**

Invested in capital assets, net of related debt	295,867
Restricted	661,899
Unrestricted	<u>607,469</u>
 Total net assets	 \$ <u><u>1,565,235</u></u>

See accompanying notes to the financial statements

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Statement of Revenues, Expenses and Changes in Net Assets  
For the Fiscal Year Ended June 30, 2005

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**OPERATING REVENUES:**

Foundation payments	\$ 952,189
Other operating revenue	<u>187,067</u>
Total operating revenues	<u>1,139,256</u>

**OPERATING EXPENSES:**

Salaries	480,945
Fringe benefits	119,666
Fiscal services	28,000
Building rental	8,333
Other purchased services	58,852
Materials and supplies	153,879
Depreciation	99,731
Other	<u>27,401</u>
Total operating expenses	<u>976,807</u>

Operating income	<u>162,449</u>
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**NONOPERATING REVENUES (EXPENSES):**

State and federal grant revenue	114,353
Interest earnings	9,230
Interest expense	<u>(7,732)</u>

Net nonoperating revenues (expenses)	<u>115,851</u>
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Change in net assets	278,300
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Net assets, beginning of year	<u>1,286,935</u>
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Net assets, end of year	\$ <u><u>1,565,235</u></u>
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See accompanying notes to the financial statements

**MOUND STREET MILITARY CAREERS ACADEMY  
MONTGOMERY COUNTY, OHIO**

Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2005

**INCREASE IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash from State of Ohio	\$	952,189
Cash payments to suppliers for goods and services		(261,529)
Cash payments to employees for services and benefits		(574,211)
Other operating revenue		197,024
Net cash provided by operating activities		313,473

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Federal and state subsidies		366,441
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**CASH FLOWS FROM CAPITAL AND**

**RELATED FINANCING ACTIVITIES**

Principal paid on capital lease		(25,925)
Interest paid on capital lease		(7,732)
Acquisition of capital assets		(336,639)
Net cash used by capital and related financing activities		(370,296)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of investments		(295,000)
Interest on investments		9,230
Net cash used by capital and related financing activities		(285,770)

INCREASE IN CASH AND CASH EQUIVALENTS 23,848

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 939,214

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 963,062

**RECONCILIATION OF OPERATING INCOME TO NET**

**CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$	162,449
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		99,731
Changes in assets and liabilities:		
Decrease in accounts receivable		9,957
Decrease in prepaid expenses		7,682
Increase in accounts payable		7,254
Increase in accrued wages payable		35,846
Increase in intergovernmental payable		5,867
Decrease in compensated absences payable		(15,313)
Total Adjustments		151,024
Net Cash Provided by Operating Activities	\$	313,473

See accompanying notes to the financial statements

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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1. Description of the Academy and Reporting Entity:

Mound Street Military 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 entered into a contract with Keys to Improving Dayton Schools, Inc. (KIDS) to provide treasurer and financial management services to the Academy. The Academy paid \$28,000 to KIDS for these services during fiscal year 2005. These payments are reflected as fiscal services expense on the financial statements.

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. The Academy operates under a self-appointing six-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. 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, one principal, six certified teaching personnel and six non-certified support personnel who provide services to an enrollment of 104 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 before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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B. Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

The accrual basis of accounting is 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 Board of Trustees 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 Principal 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 and certificate of deposit. For internal accounting purposes, the Academy segregates its cash.

E. Investments

During fiscal year 2005, investments were limited to Federal National Mortgage Association (FNMA) Notes and Federal Home Loan Mortgage Corporation (FHLMC) Notes. Investments are reported at fair market value, which is based on quoted market price.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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F. Capital assets and depreciation

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 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 building and furniture and equipment is computed using the straight-line method over estimated useful lives of three, five, seven or forty years.

G. Intergovernmental revenues

The Academy currently participates in the State Foundation Program and various grants awarded through state and federal programs. These programs include Title I, Title II-A, Title II-D, Title IV-A, Title V and Part B-IDEA. The State Foundation Program is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Amounts awarded under state and federal grant or entitlement programs for the 2005 school year totaled \$1,066,542.

H. Accrued liabilities payable

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2005, including:

Wages payable – salary payments made after year-end for services rendered in fiscal year 2005. Teaching personnel are paid in 26 equal installments, ending with the first payroll in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2005 for the first salary payments made to personnel in the month of July 2005.

Intergovernmental payable – payment for the employer's share of the retirement contribution (\$11,257) associated with services rendered during fiscal year 2005, but were not paid until the subsequent fiscal year.

I. Compensated absences

The Academy's principal, teachers and staff earn vacation and personal leave each year. The principal is allowed to carry over any unused vacation leave to subsequent school years. The principal, teachers and staff are allowed to carry over any unused personal leave to subsequent school years. A liability of \$2,657 has been recognized for earned but unused personal leave at June 30, 2005.

The Academy does not record a liability for sick leave benefits because its policy is not to pay out accumulated sick leave balances upon termination of employment.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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J. Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation and related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly by the Academy's primary mission. For the Academy, operating revenues include foundation payments received from the State of Ohio. Operating expenses are necessary costs incurred to support the Academy's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various state and federal grants, as well as interest revenue and expense comprise the non-operating revenues and expenses of the Academy.

L. 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.

M. 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.

3. Change in Accounting Principles:

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which revised the necessary disclosures that address risk related to deposits and investments and amended Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*. Statement No. 40 involves required disclosures about:

- Custodial Credit Risk
- Credit Risk
- Concentration of Credit Risk
- Interest Rate Risk, and
- Foreign Currency Risk

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

Additional disclosures are required regarding investment policies related to disclosed risks, and for investments with fair values that are highly sensitive to interest rate changes. The requirements of Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. Implementation of this new accounting principle had no effect on these financial statements.

4. Deposits and Investments:

State statutes require the classification of monies held by the Academy into three categories.

Active Monies – Those monies required to be kept in a “cash” or “near-cash” accounts for the immediate use of the Academy. Such monies must be maintained either as cash in the treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested as certificate of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested in legal securities.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy’s deposits may not be returned to it. Protection of the Academy’s deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets.

At June 30, 2005, the carrying amount of the Academy’s deposits was \$963,062 and the bank balance was \$967,739. \$667,739 of the bank deposits was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with the federal requirements could potentially subject the School to a successful claim by the FDIC.

Investments

Investments are reported at fair value. As of June 30, 2005, the Academy had the following investments:

	Fair Value	Maturities	Percent of Total Portfolio	Credit Rating
Federal Home Loan Mortgage Corp.	\$ 98,380	12/13/2005	33.35%	AAA
Federal National Mortgage Association	97,390	3/17/2006	33.01%	AAA
Federal National Mortgage Association	<u>99,230</u>	9/21/2005	<u>33.64%</u>	AAA
Total Investments	<u>\$ 295,000</u>		<u>100.00%</u>	

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

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For the Fiscal Year Ended June 30, 2005

The Academy's investment policy permits the purchase of any security specifically authorized by the Ohio Revised Code and includes the following:

Interest Rate Risk – The Academy will not directly invest in securities maturing more than five years from the date of purchase.

Concentration of Credit Risk – The Academy should normally seek to diversify its holdings of other investments by avoiding concentrations of specific issuers.

Custodial Credit Risk – The risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Academy's investments are held in the name of the Academy.

5. Capital Assets:

A summary of the Academy's capital assets at June 30, 2005, follows:

	Balance 6/30/2004	Additions	Deductions	Balance 6/30/2005
<b><u>Capital Assets, being depreciated</u></b>				
Building	\$ -	162,883	-	162,883
Furniture and Equipment	209,612	173,756	-	383,368
	<u>209,612</u>	<u>336,639</u>	<u>-</u>	<u>546,251</u>
<b><u>Less: Accumulated Depreciation</u></b>				
Building	-	(3,146)	-	(3,146)
Furniture and Equipment	(87,595)	(96,585)	-	(184,180)
	<u>(87,595)</u>	<u>(99,731)</u>	<u>-</u>	<u>(187,326)</u>
<b>Capital Assets, net</b>	\$ <u>122,017</u>	<u>236,908</u>	<u>-</u>	<u>358,925</u>

6. Risk Management:

Property and liability – The Academy is exposed to various risks of loss related to torts; theft of or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, 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 \$5,000 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 \$4,000,000 per occurrence, as well as, in the aggregate.

There has been no reduction in coverage from the prior year and settled claims have not exceeded the Academy's coverage in any of the past three years.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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Employee insurance benefits – The Academy offers health and dental insurance benefits to employees of whom 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.

7. Defined Benefit Pension Plans:

A. School Employees Retirement System

**Plan Description.** The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement 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. The School Employees Retirement System 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 SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

**Funding Policy.** Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. 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 contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$6,306, \$3,719 and \$1,698, respectively, equal to 95.75% for 2005 and 100% for 2004 and 2003.

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 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 to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**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 31<sup>st</sup> 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.

**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.

A retiree of STRS Ohio or another 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 a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

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.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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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. 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.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005, were 10% of covered payroll for members and 14% for employers. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$51,168, \$41,588 and \$38,659, respectively; equal to 82.66% for 2005 and 100% for 2004 and 2003.

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. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

8. Postemployment Benefits:

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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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 allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% 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 has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including the surcharge, was \$2,224 for fiscal year 2005.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deductions. Gross expenses for health care at June 30, 2005, were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits was \$267.5 million. The number of benefit recipients currently receiving health care benefits is approximately 58,123.

**MOUND STREET MILITARY CAREERS ACADEMY**  
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Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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State Teachers Retirement System of Ohio (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 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 the fiscal years ended June 30, 2005, and June 30, 2004, the Board allocated employer contributions equal to 1% 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 \$5,117 during the 2005 fiscal year.

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. 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 conclusions of this review could result in state funding being adjusted. The Academy does not anticipate any material adjustments to state funding for fiscal year 2005, as a result of such a review.

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 courts 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 effect of this suit, if any, on the Academy is not presently determinable.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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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. 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 as a reduction in the liability on the statement of net assets. 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 statement of net assets 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 statement of net assets. Principal payments in fiscal year 2005 totaled \$25,925.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005.

<u>Year</u>	
2006	\$ 33,656
2007	33,656
2008	<u>2,805</u>
	70,117
Less: Amount representing interest	<u>(7,059)</u>
Total present value of minimum lease payments	\$ <u>63,058</u>

12. Related Parties:

The Board of Trustees, Superintendent and Treasurer (KIDS) of Mound Street Military Careers Academy serve in the same capacity for Mound Street IT Careers Academy and Mound Street Health Careers Academy. Transactions between the three Academies are insignificant.

**MOUND STREET MILITARY CAREERS ACADEMY**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
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13. Other Purchased Services:

During the fiscal year ended June 30, 2005, other purchased service expenses for services rendered by various vendors were as follows:

Professional & technical services	\$	1,640
Electricity		14,190
Water & sewer		709
Gas		4,158
Contracted craft or trade services		28,601
Tuition		<u>9,554</u>
	\$	<u>58,852</u>

14. Subsequent Event:

Beginning July 1, 2005, the Academy's sponsor contract with the Ohio State Board of Education was terminated and replaced with a Sponsor agreement with the Montgomery County Board of Education.

# BALESTRA, HARR & SCHERER, CPAs, Inc.

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Member Ohio Society of Certified Public Accountants

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Mound Street Military Careers Academy  
Montgomery County, Ohio  
354 Mound Street  
Dayton, Ohio 45402

We have audited the financial statements of the business-type activities of the Mound Street Military Careers Academy (the Academy), Montgomery County, as of and for the year ended June 30, 2005, which comprise the Academy's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 17, 2006, in which we indicated the Academy implemented GASB Statement No. 40. 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.

### **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 an opinion 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 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 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.

### **Compliance and Other Matters**

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 agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters which we have reported to management of the Academy in a separate letter dated February 17, 2006.

This report is intended solely for the information and use of management and Board members, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.  
February 17, 2006



**Auditor of State  
Betty Montgomery**

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**MOUND STREET MILITARY CAREER 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  
MAY 23, 2006**