# MOUND STREET MILITARY CAREERS ACADEMY
# MONTGOMERY COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

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

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Auditor of State
Betty Montgomery

# INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of Mound Street Military Careers Academy, Montgomery County (the Academy), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mound Street Military Careers Academy, Montgomery County, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2005, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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www.auditor.state.oh.us

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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

**Betty Montgomery**
Auditor of State

March 10, 2005

The discussion and analysis of Mound Street Military Careers Academy (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- Total net assets increased $714,614 in fiscal year 2004, which represents a 124.86% increase from fiscal year 2003, as a result of significant increases in revenues from various federal, state and local grant programs.

- Total assets increased $703,078 which represents a 96.42% increase from the prior year. The increase is primarily due to increases in cash held by the Academy and the intergovernmental revenues recorded during the fiscal year.

- The operating income reported for fiscal year 2004 in the amount of $310,346 was $82,086 more than the operating income reported for fiscal year 2003 or a 35.96% increase.

## 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 presentations information is 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 building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the Academy's net assets for fiscal year 2004 compared with fiscal year 2003.

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

| | 2004 | 2003 |
|---|---|---|
| **ASSETS:** | | |
| Current and other assets | $ 1,310,280 | 596,488 |
| Capital assets, net | 122,017 | 132,731 |
| Total assets | 1,432,297 | 729,219 |
| **LIABILITIES:** | | |
| Current liabilities | 64,334 | 44,448 |
| Noncurrent liabilities | 81,028 | 112,450 |
| Total liabilities | 145,362 | 156,898 |
| **NET ASSETS:** | | |
| Invested in capital assets | 33,034 | 20,281 |
| Restricted | 283,468 | 156,132 |
| Unrestricted | 970,433 | 395,908 |
| Total net assets | $ 1,286,935 | 572,321 |

Total net assets of the Academy increased by $714,614 or 124.86%. The increase in total net assets from fiscal year 2004 is due in part to significant start-up costs associated with opening the Academy being recognized in the prior year as well as increases in various grants received by the Academy during fiscal year 2004. The $703,078 increase in total assets is attributable to increased ending cash balances of the Academy's funds by $494,466 and increased receivable amounts at June 30, 2004 associated with various federal and state grant programs. Total liabilities reported at June 30, 2004 decreased by ($11,536) from the amount reported a June 30, 2003, primarily due to a decrease in the outstanding balance for the capital lease obligations.

As noted in Table 1 above, reported restricted and unrestricted net assets at June 30, 2004 increased significantly from amounts reported at June 30, 2003. The $127,336 increase in restricted net assets is the result of the Academy receiving increased allocation for federal and state educational grant programs for fiscal year 2004. Unrestricted net assets increased by $574,525 during fiscal year 2004. An increase of $282,858 in state foundation funds from the State of Ohio and a $300,000 federal grant through the Ohio Public Charter School Program received for fiscal year 2004 accounts for a majority of the increase in unrestricted net assets. Additionally, the Academy continued to receive unrestricted operating grants from the Sinclair Foundation during fiscal year 2004.

The increase of $12,753 in net assets invested in capital assets results from recognizing current year depreciation of capital assets ($55,557) and capital lease payments $23,467, which was partially offset by current year capital asset acquisition in the amount of $44,843.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as revenue and expense comparisons to fiscal year 2003.

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

| | | 2004 | 2003 |
|---|---|---|---|
| Operating revenues: | | | |
| Foundation payments | $ | 833,508 | 550,650 |
| Other operating revenues | | 208,243 | 254,329 |
| Non-operating revenues: | | | |
| State and federal grants | | 409,630 | 361,708 |
| Interest earnings | | 4,827 | 1,991 |
| Total revenues | | 1,456,208 | 1,168,678 |
| Operating expenses: | | | |
| Salaries | | 418,281 | 311,459 |
| Fringe benefits | | 63,115 | 80,120 |
| Fiscal services | | 14,583 | 20,580 |
| Building rental | | 41,377 | 16,667 |
| Other purchased services | | 90,763 | 99,991 |
| Materials and supplies | | 34,890 | 12,726 |
| Depreciation | | 55,557 | 32,038 |
| Other expenses | | 12,839 | 3,138 |
| Non-operating expenses: | | | |
| Interest expense | | 10,189 | 6,984 |
| Total expenses | | 741,594 | 583,703 |
| Change in net assets | | 714,614 | 584,975 |
| Net assets, beginning of year | | 572,321 | (12,654) |
| Net assets, end of year | $ | 1,286,935 | 572,321 |

The increase in State foundation payments noted for fiscal year 2004 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 2004. During fiscal year 2003, the Academy received federal and state start-up grants totaling $250,000 compared with the $300,000 received for fiscal year 2004. During fiscal year 2004, the Academy continued to receive unrestricted operating grants from the Sinclair Foundation.

Most of the higher salary and benefit expenses reported for fiscal year 2004 results from an additional staff position to accommodate the increased number of students. The Academy also experienced increased costs related to purchased services and facility rent.

**Capital Assets**

At June 30, 2004 the capital assets of the Academy consisted of $209,612 of equipment off-set by $87,595 in accumulated depreciation resulted in net capital assets of $122,017. The $10,714 decrease in total net capital assets is due to current year depreciation expense of $55,557 combined with the $44,843 of equipment acquired during fiscal year 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, 2004, the only debt of the Academy was one capital lease with an outstanding balance of $88,983, of which $28,337 is due within one year. This lease consists of computer equipment and has been capitalized as capital assets. Principal payments for fiscal year 2004 totaled $23,467.

**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, 2004

| | | |
|---|---|---|
| **ASSETS:** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ | 939,214 |
| Receivables: | | |
| Accounts | | 100,045 |
| Intergovernmental | | 263,339 |
| Prepaid expenses | | 7,682 |
| Total current assets | | 1,310,280 |
| **Noncurrent Assets:** | | |
| Capital assets, net of accumulated depreciation | | 122,017 |
| Total assets | | 1,432,297 |
| **LIABILITIES:** | | |
| **Current Liabilities:** | | |
| Accounts payable | | 3,565 |
| Accrued wages & benefits payable | | 29,454 |
| Intergovernmental payable | | 5,390 |
| Capital lease payable - current portion | | 25,925 |
| Total noncurrent liabilities | | 64,334 |
| **Noncurrent Liabilities:** | | |
| Compensated absences payable | | 17,970 |
| Capital lease payable - noncurrent portion | | 63,058 |
| Total noncurrent liabilities | | 81,028 |
| Total liabilities | | 145,362 |
| **NET ASSETS:** | | |
| Invested in capital assets, net of related debt | | 33,034 |
| Restricted | | 283,468 |
| Unrestricted | | 970,433 |
| Total net assets | $ | 1,286,935 |

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, 2004

| | | |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Foundation payments | $ | 833,508 |
| Other operating revenue | | 208,243 |
| Total operating revenues | | 1,041,751 |
| **OPERATING EXPENSES:** | | |
| Salaries | | 418,281 |
| Fringe benefits | | 63,115 |
| Fiscal services | | 14,583 |
| Building rental | | 41,377 |
| Other purchased services | | 90,763 |
| Materials and supplies | | 34,890 |
| Depreciation | | 55,557 |
| Other | | 12,839 |
| Total operating expenses | | 731,405 |
| Operating income | | 310,346 |
| **NONOPERATING REVENUES (EXPENSES):** | | |
| State and federal grant revenue | | 409,630 |
| Interest earnings | | 4,827 |
| Interest expense | | (10,189) |
| Net nonoperating revenues (expenses) | | 404,268 |
| Change in net assets | | 714,614 |
| Net assets, beginning of year | | 572,321 |
| Net assets, end of year | $ | 1,286,935 |

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, 2004

| | | |
|---|---|---|
| **INCREASE IN CASH AND CASH EQUIVALENTS** | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash from State of Ohio | $ | 833,508 |
| Cash payments to suppliers for goods and services | | (199,811) |
| Cash payments to employees for services and benefits | | (465,831) |
| Other operating revenue | | 233,311 |
| Net cash provided by operating activities | | 401,177 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Federal and state subsidies | | 166,961 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Principal paid on capital lease | | (23,467) |
| Interest paid on capital lease | | (10,189) |
| Acquisition of capital assets | | (44,843) |
| Net cash used by capital and related financing activities | | (78,499) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest on investments | | 4,827 |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 494,466 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | | 444,748 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ | 939,214 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROIVIDED BY OPERATING ACTIVITIES** | | |
| Operating income | $ | 310,346 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | | 55,557 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | | 25,068 |
| Increase in prepaid expenses | | (1,725) |
| Decrease in accounts payable | | (3,472) |
| Increase in accrued wages payable | | 7,478 |
| Decrease in intergovernmental payable | | (8,825) |
| Increase in compensated absences payable | | 16,750 |
| Total Adjustments | | 90,831 |
| Net Cash Provided by Operating Activities | $ | 401,177 |

See accompanying notes to the financial statements

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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 PACE School Resource Center (SRC) to provide treasurer and financial management services to the Academy. During fiscal year 2004, SRC separated from PACE and was renamed Keys to Improving Dayton Schools, Inc. (KIDS). The Academy paid $14,583 to KIDS for these services during fiscal year 2004. 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, four certified teaching personnel and seven non-certified support personnel who provide services to an enrollment of 119 students.

2. Summary of Significant Accounting Policies:

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 20, 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 manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement focus 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 Schools 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. For internal accounting purposes, the Academy segregates its cash.

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

F. Intergovernmental revenues

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

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

The Academy also participates in the Charter Academy Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded $50,000 for the planning phase of the Academy and an additional $150,000 during the year ended June 30, 2003. Revenue from this program was used during fiscal year 2003 for activities of the startup phase of the Academy. During fiscal year 2004, the Academy received an additional allocation of $300,000 through the Ohio Public Charter School Program.

Amounts awarded under the above named programs for the 2004 school year totaled $1,243,138.

G. 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, 2004, including:

Wages payable – salary payments made after year-end for services rendered in fiscal year 2004. 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, 2004 for the first salary payments made to personnel in the month of July 2004.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($5,390)associated with services rendered during fiscal year 2004, but were not paid until the subsequent fiscal year.

H. 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 $17,970 has been recognized for earned but unused personal leave at June 30, 2004.

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.

I. Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation and related debt. Net assets are reported as restricted when there are limitations imposed n 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.

J. 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.

K. 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 a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

L. 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:

For fiscal year 2004, the Academy has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB 34 created new basic financial statements for reporting on the Academy's financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the users ability to interpret the information within the statements.

4. Deposits and Investments:

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements." During fiscal year 2004, the Academy did not have any investments.

**Deposits**: At June 30, 2004, the carrying amount of the Academy's deposits was $939,214 and the bank balance was $996,694. Of the bank balance, $100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

5. Capital Assets:

A summary of the Academy's capital assets at June 30, 2004, follows:

| | | Balance 6/30/2003 | Additions | Deductions | Balance 6/30/2004 |
|---|---|---|---|---|---|
| **Capital Assets, being depreciated** | | | | | |
| Furniture and Equipment | $ | 164,769 | 44,843 | - | 209,612 |
| **Less: Accumulated Depreciation** | | | | | |
| Furniture and Equipment | | (32,038) | (55,557) | - | (87,595) |
| **Capital Assets, net** | $ | 132,731 | (10,714) | - | 122,017 |

6. Risk Management:

Property and liability – The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, 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.

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

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 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, 2004 and 2003 were $3,719 and $1,698, respectively, equal to 94.06% for 2004 and 100% for 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.

**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$^{st}$ 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.

Eligible faculty of Ohio's 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 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.

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, 2004, 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, 2004 and 2003 were $41,588 and $38,659, respectively; equal to 91.55% for 2004 and 100% for 2003.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2004 *Comprehensive Annual Financial Report* will be available after January 1, 2005. Additional information or copies of STRS Ohio's 2004 *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.strs.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, 3004, the allocation rate is 4.91%. 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 2004, the minimum pay has been established at $25,400. 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 $2,627 for fiscal year 2004.

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, 2004, were $223,443,805 and the target level was $335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was $300.8 million. The number of benefit recipients currently receiving heath care benefits is approximately 62,000.

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, 2004, and June 30, 2003, 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 $3.1 billion on June 30, 2004. For the Academy, this amount equaled $3,199 during the 2004 fiscal year.

For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were $268,739,000. There were 111,853 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.

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 reduction in the liability on the statement of net assets. Amortization applicable to assets acquired though 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 2004 totaled $23,467.

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, 2004.

| Year | | |
|---|---|---|
| 2005 | $ | 33,656 |
| 2006 | | 33,656 |
| 2007 | | 33,656 |
| 2008 | | 2,805 |
| | | 103,773 |
| Less: Amount representing interest | | (14,790) |
| Total present value of minimum lease payments | $ | 88,983 |

12. Operating Lease:

Through October 2003, the Academy leased its facilities from Reynolds and Reynolds. Subsequently, Reynolds and Reynolds sold the facilities to the City of Dayton, Ohio. The Academy continued to lease the facilities from the City. Building rental for fiscal year 2004 totaled $41,377. As of June 30, 2004, the monthly rent charged by the City for the facility was $3,333.33.

13. 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.

14. Other Purchased Services:

During the year ended June 30, 2004, other purchased service expenses for services rendered by various vendors were as follows:

| | | |
|---|---|---|
| Professional & technical services | $ | 58,724 |
| Property services | | 10,928 |
| Travel/mileage/meeting expense | | 4,523 |
| Communications | | 3,609 |
| Electricity | | 1,969 |
| Water & sewer | | 191 |
| Gas | | 3,137 |
| Contracted craft or trade services | | 7,362 |
| Pupil transportation services | | 320 |
| | $ | 90,763 |

15. Subsequent Event:

During September 2004, the Academy purchased the School Facility and adjacent parking lots from the City of Dayton. The property was appraised at $1,020,000. The three Mound Street Academies agreed to pay a total of $500,000. Therefore, each Academy’s share of the property is $166,667.

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**Auditor of State**
**Betty Montgomery**

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

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

To the Governing Board:

We have audited the financial statements of the business-type activities of Mound Street Military Careers Academy, Montgomery County, (the Academy), as of and for the year ended June 30, 2004, which comprise the Academy's basic financial statements and have issued our report thereon dated March 10, 2005, wherein we noted that the Academy implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the Academy's management in a separate letter dated March 10, 2005.

### 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 for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does require inclusion in this report, that we have reported to management in a separate letter dated March 10, 2005.

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

Betty Montgomery

**Betty Montgomery**
Auditor of State

March 10, 2005

Auditor of State
Betty Montgomery

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**MOUND STREET MILITARY CAREERS ACADEMY**

**MONTGOMERY COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**APRIL 5, 2005**