



**Auditor of State  
Betty Montgomery**



**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

General Chappie James Leadership Academy  
Montgomery County  
120 Knox Avenue  
Dayton, Ohio 45427

To the Board of Directors:

We have audited the accompanying basic financial statements of General Chappie James Leadership Academy, Montgomery County, (the Academy), as of and for the period September 1, 2004 through June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of General Chappie James Leadership Academy as of June 30, 2005, and the changes in its financial position and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

December 22, 2005

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Unaudited)**

The discussion and analysis of General Chappie James Leadership Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period 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 notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for the period ended June 30, 2005 are as follows:

In total, net assets were \$56,942 at June 30, 2005.

The Academy had operating revenues of \$311,399 and operating expenses of \$287,694. The Academy also received \$150 in Federal grants, \$27,833 in State grants and \$10,000 in gifts and contributions. The Academy also paid \$4,746 in interest on a loan that was outstanding during the period. The total change in net assets for the period was \$56,942.

**Using the Basic Financial Statements**

This annual report consists of the management discussion and analysis, the basic financial statements and the notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Activities and a Statement of Cash Flows. These statements are organized so the reader can understand the Academy's financial activities.

**Reporting the Academy's Financial Activities**

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations. These documents look at all financial transactions and ask the question, "How did we do financially during the period?" These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting records revenue when earned and expenses when incurred regardless of when cash is received or paid.

These two statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader whether, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Unaudited)**

Table 1 provides a summary of the Academy's net assets as of June 30, 2005. Since this is the first year of operations for the Academy, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

**Table 1  
Net Assets**

	<u>2005</u>
<b>Assets</b>	
Current and Other Assets	\$92,278
Capital Assets, Net	7,001
Total Assets	<u>99,279</u>
<b>Liabilities</b>	
Current Liabilities	<u>42,337</u>
Total Liabilities	<u>42,337</u>
<b>Net Assets</b>	
Invested in Capital Assets	7,001
Unrestricted	49,941
Total Net Assets	<u>\$56,942</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Academy's assets exceeded its liabilities by \$56,942. Total assets are attributable to ending cash balances of the Academy's funds of \$76,584. The Academy's Capital Assets consists of \$7,724 from purchases of equipment during the year, less accumulated depreciation on these items. Total liabilities (as noted above in the amount of \$42,337) are predominately attributable to accrued wages and benefits at year end.



**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Unaudited)**

Table 2 shows the changes in net assets for the period ended June 30, 2005, as well as a listing of revenues and expenditures. Since this is the first year of operation for the Academy, revenue and expense comparisons are not available. In future years, when prior-year information is available, a comparative analysis will be presented.

**Table 2  
Changes in Net Assets**

	<b>2005</b>
<b>Operating Revenues</b>	
State Foundation	\$310,471
Other Operating Revenues	928
Total Operating Revenues	311,399
<b>Non- Operating Revenues</b>	
Federal Grants	150
State Grants	27,833
Gifts and Contributions	10,000
Total Non-Operating Revenues	37,983
<b>Total Revenues</b>	349,382
<b>Operating Expenses</b>	
Salaries	131,334
Fringe Benefits	28,820
Purchased Services	71,743
Materials and Supplies	41,331
Depreciation	723
Other	13,743
Total Operating Expenses	287,694
<b>Non-Operating Expenses</b>	
Interest and Fiscal Charges	4,746
<b>Total Expenses</b>	292,440
<b>Increase in Net Assets</b>	\$56,942

Community schools receive no support from taxes. The State Foundation is, by far, the primary support for the Academy's students. State Foundation payments accounted for approximately 89 percent of all revenues. Gifts and Contributions accounted for another 3 percent of the Academy's revenues. Federal and State grants accounted for another 8 percent of revenues, with miscellaneous operating revenue making up the rest.

**Capital Assets**

At June 30, 2005, the Academy had \$7,001 invested in equipment.

For more information on capital assets, see Note 4 of the Basic Financial Statements.

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Unaudited)**

**Debt**

During the period, the Academy issued a note in the amount of \$20,499. The interest rate on the loan was 26.05 percent. It was issued for the purpose of reimbursing an employee who took out a loan on behalf of the Academy on September 9, 2004 for the purpose of providing startup money for the Academy. The loan was repaid during the period ended June 30, 2005.

For more information on the Academy's debt, see Note 12 of the Basic Financial Statements.

**Current Financial Issues and Concerns**

The Academy is sponsored by the Lucas County Educational Service Center. The Academy relies on the State Foundation Funds as well as State Grants to provide the monies necessary to begin and carry on the activities of the Academy. The administration considers many factors when setting the Academy's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined based on the student count and the foundation allowance per pupil. The 2006 fiscal year budget was based on an estimated enrollment of 85 students. New staff positions include a principal, community leadership resource liaison, and classroom aide. Staffing contracts will be adjusted per student enrollment and the Academy will amend the budget if actual Academy resources are not sufficient to fund the original appropriation.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Deborah Dynes, Treasurer, General Chappie James Leadership Academy, 120 Knox Avenue, Dayton, OH 45427.

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005**

**Assets:**

**Current Assets**

Equity in Pooled Cash and Cash Equivalents	\$76,584
Intergovernmental Receivable	15,694
Total Current Assets	<u>92,278</u>

**Non-Current Assets**

Capital Assets, Net	<u>7,001</u>
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Total Assets	<u><u>\$99,279</u></u>
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**Liabilities:**

**Current Liabilities**

Accounts Payable	\$942
Accrued Wages and Benefits Payable	27,333
Intergovernmental Payable	14,062
Total Current Liabilities	<u>42,337</u>

**Net Assets**

Invested in Capital Assets	7,001
Unrestricted	<u>49,941</u>

Total Net Assets	<u><u>\$56,942</u></u>
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*See accompanying notes to the basic financial statements.*

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
FOR THE PERIOD ENDED JUNE 30, 2005**

<b>Operating Revenues:</b>	
State Foundation	\$310,471
Other Operating Revenues	928
Total Operating Revenues	<u>311,399</u>
<b>Operating Expenses</b>	
Salaries	131,334
Fringe Benefits	28,820
Purchased Services	71,743
Materials and Supplies	41,331
Depreciation	723
Other	13,743
Total Operating Expenses	<u>287,694</u>
Operating Income	<u>23,705</u>
<b>Non-Operating Revenues and Expenses</b>	
Federal Grants	150
State Grants	27,833
Gifts and Contributions	10,000
Interest and Fiscal Charges	(4,746)
Total Non-Operating Revenues	<u>33,237</u>
Net Assets Beginning of Year	<u>                    </u>
Net Assets End of Year	<u><u>\$56,942</u></u>

*See accompanying notes to the basic financial statements.*

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED JUNE 30, 2005**

**Increase (Decrease) in Cash and Cash Equivalents:**

**Cash Flows from Operating Activities:**

Cash Received from State Foundation	\$310,471
Cash Received from Other Operating Activities	928
Cash Payments for Employee Services and Benefits	(138,530)
Cash Payments for Goods and Services	(109,793)
Cash Payments for Other Operating Expenses	<u>(12,539)</u>
Net Cash Provided by Operating Activities	<u>50,537</u>

**Cash Flows from Noncapital Financing Activities:**

Federal Grants	684
State Grants	27,833
Gifts and Contributions	10,000
Proceeds of Loan	20,499
Loan Principal Payments	(20,499)
Loan Interest Payments	<u>(4,746)</u>
Net Cash Provided by Noncapital Financing Activities	<u>33,771</u>

**Cash Flows from Capital and Related Financing Activities**

Acquisition of Capital Asset	<u>(7,724)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(7,724)</u>

Net Increase in Cash and Cash Equivalents	76,584
Cash and Cash Equivalents Beginning of Year	<u>                    </u>
Cash and Cash Equivalents End of Year	<u><u>\$76,584</u></u>

**Reconciliation of Operating Income to Net Cash  
Provided by Operating Activities:**

<b>Operating Income</b>	\$23,705
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**Adjustments to Reconcile Operating Income to  
Net Cash Provided by Operating Activities:**

Depreciation	723
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**Changes in Assets and Liabilities:**

Increase in Intergovernmental Receivable	(15,694)
Increase in Accounts Payable	942
Increase in Accrued Wages and Benefits Payable	27,333
Increase in Intergovernmental Payable	<u>13,528</u>
Net Cash Used Provided by Operating Activities	<u><u>\$50,537</u></u>

*See accompanying notes to the basic financial statements.*

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**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005**

**1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

The General Chappie James Leadership Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to serve as a Community School to educate children. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is a Federal tax exempt entity under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy's mission is to honor the uniqueness of students by trusting their natural abilities to develop lifelong learners who are independent thinkers that establish a culture of diversity, respect, responsibility, service and courage.

The Academy was approved under contract with their Sponsor Lucas County Educational Service Center for a period of five years ending June 30, 2009. The Academy began operations on September 1, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of the Academy.

The Academy operates under the direction of a Board of Directors, consisting of not less than five members. Initially, three of the members must be chosen by the acting Board of Directors of the Academy, an Ohio non-profit corporation and two of the members are chosen from leaders from the broad range of disciplines representing professionals, community leaders and parents. The Directors serve a two-year term and may not serve more than three terms consecutively. At the annual meeting, the then acting Directors elect the Directors of the Corporation by majority vote. The Board of Directors is responsible for carrying out the provisions of the contract with the Sponsor, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers. The Board elects Officers annually including a Chair, Vice-Chair, Secretary and Treasurer. The Officers serve one-year terms. The Board appoints an Executive Director by majority vote who is the Chief Executive Officer of the Academy and responsible for operating the day-to-day business affairs of the Academy, subject the supervision of the Board. The Executive Director shall serve until his or her resignation, removal, death or appointment of a successor.

The Board of Directors controls the Academy's one instructional/support facility which was staffed by 2 certified employees and one administrative employee who provided instructional services to 53 students during the period ended June 30, 2005. The Academy contracts with an outside party for Treasurer services.

The primary government of the Academy consists of five funds, several departments and the Board that is not legally separate from the Academy. This includes general operations and student related activities of the Academy. The Academy is associated with the Metropolitan Dayton Education Computer Association (MDECA) which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 13)

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the General Chappie James Leadership Academy have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. 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 30, 1989. The most significant of the Academy's accounting policies are described below.

**A. Basis of Presentation**

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

**B. Measurement Focus**

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

**C. Basis of Accounting**

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

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

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

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.



**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process**

Community Schools must adopt a spending plan under Ohio Revised Code Section 5705.391 which requires annual appropriations and annual revenue estimates. 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 Revised Code Section 5705.

**E. Cash**

All monies received by the Academy are maintained in a demand deposit account.

**F. Capital Assets and Depreciation**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$1,000. The Academy does not have any infrastructure. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Fixtures	10-20 years
Machinery and Equipment	4-8 years

**G. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. 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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**H. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the statement of net assets.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program and miscellaneous operating revenues. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The Academy participated in the Community School State Grant Program during the period ended June 30, 2005. The Academy was awarded and received \$24,833 from this program during the period to help off-set startup costs. These monies were spent on operational costs of the Academy during fiscal year 2005.

The Academy also participates in the Federal Title VI-B Program and the State EMIS Grant Program. Under these programs, the Academy was awarded and received \$150 and \$3,000, respectively, during the period ended June 30, 2005.

Revenues from Federal and State Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

**K. Estimates**

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

**L. Prepayments**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the period in which services are consumed.

**3. DEPOSITS**

At fiscal year-end, the Academy had \$500 in undeposited cash on hand.

At June 30, 2005, the book balance of the Academy's deposits was \$76,084 and the bank balance was \$81,407. The entire bank balance was covered by federal depository insurance.

**4. CAPITAL ASSETS**

Capital asset activity for the period ended June 30, 2005, was as follows:

	<b>Balance 9/1/04</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 6/30/05</b>
Machinery and Equipment	\$0	\$7,724	\$0	\$7,724
Less Accumulated Depreciation:				
Machinery and Equipment	0	(723)	0	(723)
Capital Assets, Net	<u>\$0</u>	<u>\$7,001</u>	<u>\$0</u>	<u>\$7,001</u>

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Continued)**

**5. RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and contracted personnel; and natural disasters. During the period ended June 30, 2005, the Academy had property and liability insurance through Indiana Insurance.

**B. Workers' Compensation**

The Academy pays the State Workers' Compensation System premium for employee injury coverage. The premium is calculated by multiplying annual gross payroll by a factor calculated by the State.

**6. PURCHASED SERVICES**

For the period ended June 30, 2005, purchased services were as follows:

Professional and Technical Services	\$29,163
Property Services	16,209
Travel and Meetings	113
Communications	11,503
Utilities	14,698
Pupil Transportation	57
Total Purchased Services	<u>\$71,743</u>

**7. PERSONNEL AGREEMENT**

The Academy entered into a service contract with Deborah L. Dynes for Treasurer services. Total treasurer services payments for the period ended June 30, 2005 were \$9,828.

**8. OPERATING LEASES**

The Academy entered into a rental agreement with the Jefferson Township Local School District Board of Education for use of classrooms and offices. This agreement was for the period September 13, 2004, through September 12, 2005. According to the agreement, the rent was \$1,000 per month payable in advance. During the period ended June 30, 2005, the Academy made total payments of \$12,100.

**9. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (Continued)**

For the period ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute at an actuarially determined rate of 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the period ended June 30, 2005 was \$4,498; 54 percent has been contributed.

**B. State Teachers Retirement System of Ohio**

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the period ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (Continued)**

The Academy's required contribution for pension obligations to the DB Plan for the period ended June 30, 2005 was \$15,710; 68 percent has been contributed. The Academy did not have any employees who participated in the DC or Combined Plans for the period ended June 30, 2005.

**10. POSTEMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$1,208 for the period ended June 30, 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the period ended June 30, 2005 equaled \$1,959.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, (the latest information available) were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Continued)**

**11. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation, personal leave and sick leave benefits are derived from employee contracts. Employees earn three personal days and nine sick days per year. The Director also earns fifteen vacation days per year. Personal leave, sick leave, and vacation do not carry over to future years.

**B. Insurance Benefits**

The Academy provides health and life insurance to all employees through Anthem.

**12. SHORT-TERM OBLIGATIONS**

On September 8, 2004, the Academy received loan proceeds in the amount of \$20,499 from an installment loan taken out by Kecia and Robert Williams in order to provide start-up money for the Academy. The Academy issued a note in the amount of \$20,000 plus applicable fees and charges to repay Kecia and Robert Williams. The note carried an interest rate of 26.05%. The note was repaid during the period, along with interest of \$4,746. There is no balance outstanding on the loan at June 30, 2005. (See Note 15)

**13. JOINTLY GOVERNED ORGANIZATION**

The Academy is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The Academy made payments of \$2,923 to MDECA during the period ended June 30, 2005. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

**14. CONTINGENCIES**

**A. Grants**

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

**GENERAL CHAPPIE JAMES LEADERSHIP ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 1, 2004 THROUGH JUNE 30, 2005  
(Continued)**

**14. CONTINGENCIES (Continued)**

**B. Federal and State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. One review was conducted during the period ended June 30, 2005.

**C. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e. Charter) School's program violates the State Constitution and State laws. On April 21, 2003, the court dismissed the counts containing constitutional claim 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 Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

**15. RELATED PARTY TRANSACTIONS**

During the period ended June 30, 2005, the Academy received proceeds of \$20,499 from a loan that was taken out by Kecia and Robert Williams on behalf of the Academy. Kecia is the Director of the Academy. The Academy repaid the loan plus interest of \$4,746 during the period.

**16. RECEIVABLES**

Receivables at June 30, 2005 consisted of intergovernmental receivables in the amount of \$15,694. This represents contributions to the State Employees Retirement System and the State Teachers Retirement System of Ohio in excess of what was owed on salaries paid during the period ended June 30, 2005. All receivables are considered collectible in full and are expected to be received within one year.

**17. GIFTS AND CONTRIBUTIONS**

The Academy received a gift of \$10,000 from the Thomas B. Fordham Foundation on December 16, 2004, for the purchase of new computer equipment for the school.

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## Auditor of State Betty Montgomery

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

General Chappie James Leadership Academy  
Montgomery County  
120 Knox Avenue  
Dayton, Ohio 45427

To the Board of Directors:

We have audited the financial statements of the business-type activities of General Chappie James Leadership Academy, Montgomery County, (the Academy), as of and for the period ended June 30, 2005, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated December 22, 2005, we reported matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated December 22, 2005, we reported a matter related to noncompliance we deemed immaterial.

General Chappie James Leadership Academy  
Montgomery County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

December 22, 2005



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**GENERAL CHAPPIE JAMES LEADERSHIP 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  
JANUARY 17, 2006**