Mound Street Military Careers Academy

Montgomery County, Ohio

Regular Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, Inc.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
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www.bhscpas.com

Mary Taylor, CPA
Auditor of State

Board of Trustees
Mound Street Military Careers Academy
354 Mound Street
Dayton, Ohio 45402

We have reviewed the *Independent Auditor's Report* of the Mound Street Military Careers Academy, Montgomery County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 23, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
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Mound Street Military Careers Academy
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For the Fiscal Year Ended June 30, 2007

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528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
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Independent Auditor's Report

Members of the Board
Mound Street Military Careers Academy
Montgomery County, Ohio
354 Mound Street
Dayton, Ohio 45402

We have audited the accompanying financial statements of the business-type activities of the Mound Street Military Careers Academy, Montgomery County, Ohio, (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 respective financial position of the business-type activities of the Academy, as of June 30, 2007, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007 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. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

November 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Mound Street Military Careers Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. 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.

FINANCIAL HIGHLIGHTS

- Total net assets increased $210,112 in fiscal year 2007, which represents a 11.4% increase from fiscal year 2006, as a result of the Academy continuing to be fiscally responsible with regards to managing the Academy funds.

- Total assets increased $205,659 which represents a 10.7% increase from the prior year. The increase is primarily due to the increase in investments.

- The operating revenue for fiscal year 2007 in the amount of $909,492 was $130,882 less than the operating revenue reported for fiscal year 2006. This decrease is due to a decrease in foundation payments received.

- The non-operating revenue for fiscal year 2007 in the amount of $247,282 was $47,231 higher than the non-operating revenue reported for fiscal year 2006. This increase is due to an increase in interest revenue received.

USING THIS ANNUAL FINANCIAL REPORT

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

Statement of Net Assets

The statement of net assets and the statement of revenues, expenses and changes in net assets answer the question, "How did we do financially during the fiscal year?" The statement of net assets 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 measurement 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.

The statement of revenues, expenses and changes in net assets reports the changes in net assets. This change in net assets is important because it tells the reader that, 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 report the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy's building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

THE ACADEMY AS A WHOLE

As stated previously, the Statement of Net Assets provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets for 2007 compared to 2006.

Table 1
Net Assets

	2007	2006
Assets:		
Current and other assets	$ 1,906,915	$ 1,683,969
Capital assets, net	221,861	239,148
Total Assets	2,128,776	1,923,117
Liabilities:		
Current and other liabilities	70,351	73,880
Noncurrent liabilities	11,822	12,746
Total Liabilities	82,173	86,626
Net Assets:		
Invested in capital assets	221,861	239,148
Restricted	380,176	588,741
Unrestricted	1,444,566	1,008,602
Total Net Assets	$ 2,046,603	$ 1,836,491

Total assets increased $205,659, due primarily to an increase in cash balances. Total liabilities decreased $4,453, due primarily to a decrease in accounts payable offset by an increase in accrued wages and benefits payable. Total net assets increased $210,112, due to revenues in excess of expenses.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2007 and 2006.

Table 2
Change in Net Assets

	2007	2006
Revenues		
Operating revenues:		
Foundation payments	$ 715,455	$ 847,587
Charges for services	7,981	-
Other operating revenues	186,056	192,787
Total Operating revenues	909,492	1,040,374
Non-operating revenues:		
State and federal grants	155,762	165,805
Other non-operating revenues	7,258	-
Interest earnings	84,262	34,246
Total non-operating revenues	247,282	200,051
Total Revenues	1,156,774	1,240,425
Expenses		
Operating expenses:		
Salaries	490,538	444,781
Fringe benefits	129,074	129,355
Other purchased services	229,239	226,375
Materials and supplies	49,451	68,092
Depreciation	18,690	17,853
Other expenses	29,670	19,966
Total Expenses	946,662	906,422
Increase in Net Assets	210,112	334,003
Net Assets at Beginning of Year	1,836,491	1,502,488
Net Assets at End of Year	$ 2,046,603	$ 1,836,491

Foundation payments from the State of Ohio decreased by $132,132 from fiscal year 2006 to fiscal year 2007, due in part to a decrease in the number of students enrolled in the Academy. Other operating revenues decreased by $6,731 primarily due to a decrease in materials and fees revenue received. State and federal grant revenues decreased by $10,043, primarily due to a decrease in grant received from the state. Interest earnings increased $50,016, due primarily to increased cash balances and higher interest rates.

Capital Assets

At June 30, 2007 the capital assets of the Academy consisted of the building in the amount of $177,449 off-set by $12,281 in accumulated depreciation, furniture and equipment amounting to $88,305 with accumulated depreciation of $37,425, and vehicles in the amount of $7,435 with accumulated depreciation of $1,622 resulting in net capital assets of $221,861. The Academy purchased new computers and other technology equipment amounting to $3,968. Depreciation expense for the fiscal year ended June 30, 2007 amounted to $18,690.

See Note 4 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

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, 2007

ASSETS:	
Current Assets:	
Cash and cash equivalents	$ 1,883,552
Receivables:	
Accounts	1,200
Intergovernmental	22,163
Total current assets	1,906,915
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	221,861
Total assets	2,128,776
LIABILITIES:	
Current Liabilities:	
Accounts payable	17,277
Accrued wages and benefits	45,378
Intergovernmental payable	7,696
Total current liabilities	70,351
Noncurrent Liabilities:	
Compensated absences payable	11,822
Total noncurrent liabilities	11,822
Total liabilities	82,173
NET ASSETS:	
Invested in capital assets	221,861
Restricted	593,561
Unrestricted	1,231,181
Total net assets	$ 2,046,603

See accompanying notes to the basic financial statements.

MOUND STREET MILITARY CAREERS ACADEMY
MONTOMERY COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

OPERATING REVENUES:		
Foundation payments	$	715,455
Charges for services		7,981
Other operating revenue		186,056
Total operating revenues		909,492
OPERATING EXPENSES:		
Salaries		490,538
Fringe benefits		129,074
Other purchased services		229,239
Materials and supplies		49,451
Depreciation		18,690
Other		29,670
Total operating expenses		946,662
Operating loss		(37,170)
NON-OPERATING REVENUES		
Interest earnings		84,262
State and federal grant revenue		155,762
Other non-operating revenue		7,258
Total non-operating revenues		247,282
Change in net assets		210,112
Net assets, beginning of year		1,836,491
Net assets, end of year	$	2,046,603

See accompanying notes to the basic financial statements.

MOUND STREET MILITARY CAREERS ACADEMY
MONTGOMERY COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash from State of Ohio	$ 715,455
Cash from charges for services	7,981
Cash payments to suppliers for goods and services	(317,216)
Cash payments to employees for services and benefits	(615,209)
Other operating revenue	185,797
Net cash used for operating activities	(23,192)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal and state subsidies	144,942
Other non-operating revenue	7,258
Net cash provided by noncapital financing activities	152,200
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sale of capital acquisitions	2,565
Payments for capital acquisitions	(3,968)
Net cash used by capital and related financing activities	(1,403)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	84,262
Sale of investments	299,054
Net cash provided by investing activities	383,316
NET INCREASE IN CASH AND CASH EQUIVALENTS	510,921
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,372,631
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,883,552

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	$ (37,170)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	18,690
Changes in assets and liabilities:	
Increase in accounts receivable	(259)
Decrease in accounts payable	(8,856)
Increase in accrued wages and benefits payable	4,948
Increase in intergovernmental payable	379
Decrease in compensated absences payable	(924)
Total adjustments	13,978
Net cash used for operating activities	$ (23,192)

See accompanying notes to the financial statements.

NOTE 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 was approved for operation under contract with the Montgomery County Educational Service Center (Sponsor) for a period of one year commencing with fiscal year July 1, 2006 through June 30, 2007. The sponsorship contract is renewed annually. The Academy operates under a self-appointing six-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility staffed by one superintendent, one principal, seven certified teaching personnel and six non-certified support personnel who provide services to an enrollment of 94 students.

NOTE 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 30, 1989.

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

Basis of presentation

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

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 presents 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Budgetary process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

The Board of Education 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.

Cash and cash equivalents and investments

All monies received by the Academy are maintained in demand deposit accounts, a savings account and investments. For internal accounting purposes, the Academy segregates its cash using fund accounting.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

During fiscal year 2007, the Academy's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR-Ohio). StarOhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. StarOhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in StarOhio are valued at StarOhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2007 amounted to $84,262.

Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of $1,000. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed. Depreciation of building, furniture and equipment, and vehicles is computed using the straight-line method over estimated useful lives of three, five, seven or forty years.

Intergovernmental revenues

The Academy currently participates in the State Foundation Program and various grants awarded through state and federal programs. These programs include Title I, Title II-A, Title II-D, Title IV-A, Title V, Part B-IDEA, and Fresh Fruits and Vegetables. The State Foundation Program is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Amounts awarded under state and federal grant or entitlement programs for the 2007 school year totaled $871,217.

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, 2007 including:

Wages Payable – salary payments made after year-end for services rendered in fiscal year 2007. 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, 2007 for the first salary payments made to personnel in the month of July 2007.

Intergovernmental payable – payment for the SERS' surcharge and workers' compensation ($7,696) associated with services rendered during fiscal year 2007, but was not paid until the subsequent fiscal year.

Compensated absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Academy has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Academy's termination policy. The Academy records a liability for accumulated unused sick leave for all employees after 10 years of current service with the Academy.

The entire compensated absences liability is reported on the basic financial statements.

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

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. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

As of June 30, 2007, of the Academy's $593,561 in restricted net assets, none was restricted by enabling legislation.

Operating and non-operating revenues and expenses

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 comprise the non-operating revenues of the Academy. The Academy had no non-operating expenses for the fiscal year 2007.

Federal tax exemption status

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

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.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The Academy's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of June 30, 2007, the Academy's bank balance of $1,316,240 is either covered by FDIC or collateralized by the financial institution's public entity deposit pools in the manner described above.

Investments

Investments are reported at fair value. As of June 30, 2007, the Academy had the following investment:

	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	$ 576,509	Less than 1 year

The Academy's investment policy permits the purchase of any security specifically authorized by the Ohio Revised Code.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Academy will not directly invest in securities maturing more than five years from the date of purchase.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments in STAR Ohio were rated AAAm by Standard & Poor's. The Academy's policy does not address credit risk for investments.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Academy has invested 100% in investments with a weighted average maturity of less than one year. The Academy should normally seek to diversify its holdings of other investments by avoiding concentrations of specific issuers.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy does not have a policy for custodial credit risk. All of the Academy's securities are either insured and registered in the name of the Academy or at least registered in the name of the Academy.

NOTE 4 – CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2007, follows:

	Ending Balance 6/30/2006	Additions	Deletions	Ending Balance 6/30/2007
Capital Assets, being depreciated				
Building	$180,014	$0	$2,565	$177,449
Furniture and Equipment	84,337	3,968	0	88,305
Vehicles	7,435	0	0	7,435
Total Capital Assets, Being Depreciated	271,786	3,968	2,565	273,189
Less: Accumulated Depreciation				
Building	(8,072)	(4,209)	0	(12,281)
Furniture and Equipment	(24,566)	(12,859)	0	(37,425)
Vehicles	0	(1,622)	0	(1,622)
Total Accumulated Depreciation	(32,638)	(18,690)	0	(51,328)
Total Capital Assets Being Depreciated, Net	$239,148	($14,722)	$2,565	$221,861

NOTE 5 – RISK MANAGEMENT

Property and liability – The Academy is exposed to various risks of loss related to torts; theft of or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the Academy contracted with Indiana Insurance Company for business property, director and officer liability, auto, and general liability insurance. Business personal property coverage carries a $1,000 deductible and has a $1,000,000 limit. Auto coverage carries a $500 deductible for comprehensive and collision 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 Indiana 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 for which the Academy pays 90% and the employee pays 10% of the premiums. The Academy also offers life insurance to its employees for which it pays 100% of the premiums. These benefits are administered by Anthem.

NOTE 6 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description. The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Funding Policy. Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 2007, 10.68% was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The Academy's contributions to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $8,112, $6,690, and $6,306 respectively, equal to 100% for 2007, 2006 and 2005.

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. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS (Continued)

purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or an equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

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

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active 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.

For the fiscal year 2007, plan members are required to contribute 10% of their annual covered salaries. The Academy was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Academy's required contributions for pension obligations to STRS for fiscal years ended June 30, 2007, 2006, and 2005 were

NOTE 6 – DEFINED BENEFIT PENSION PLANS (Continued)

$59,196, $61,008, and $51,168, respectively; which is the required contribution for those years.

NOTE 7 - POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated 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 benefit recipients and sponsored dependents are eligible for healthcare coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2007, the STRS board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $4,358 for fiscal year 2007.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2006 (the latest information available) the balance in the Fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

The Ohio Revised Code grants SERS the discretionary authority to provide post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefits recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premiums. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2007, the health care allocation is 3.32%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established as $35,800. 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 contributed to fund health care benefits, including the surcharge, equaled $3,185 during the 2007 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 (the latest information available) were $158,751,207. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was $295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 59,492.

NOTE 8 - CONTINGENCIES

Grants

Amounts received from grantor agencies are subject to audit and adjustment by 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 overall financial position of the Academy.

State Funding

The Ohio Department of Education conducts reviews of enrollment date 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 2007, as a result of such a review.

Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) School programs violate the State Constitution and state laws. On April 23, 2004, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

NOTE 9 – LONG-TERM OBLIGATIONS

Changes in long-term obligations of the Academy during fiscal year 2007 were as follows:

	Balance Outstanding At June 30, 2006	Additions	Deletions	Balance Outstanding At June 30, 2007	Amount Due in One Year
Compensated Absences	$ 12,746	$ 11,822	$ 12,746	$ 11,822	$ -

Compensated absences will be paid from the fund from which the employee is paid.

NOTE 10 – RELATED PARTIES

The Board of Education, Superintendent and Treasurer 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.

NOTE 11 – OTHER PURCHASED SERVICES

During the fiscal year ended June 30, 2007, other purchased service expenses for services rendered by various vendors were as follows:

Professional & technical services	$	81,790
Property Services		30,940
Travel Mileage/Meeting Expense		9,992
Communications		5,663
Electricity		17,922
Water & Sewer		1,094
Gas		4,115
Contracted Craft/Trade Services		68,736
Tuition		8,987
Total Other Purchased Services	$	229,239

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
Mound Street Military Careers Academy
Montgomery County, Ohio
354 Mound Street
Dayton, Ohio 45402

We have audited the financial statements of the business-type activities of Mound Street Military Careers Academy, Montgomery County, Ohio (the Academy), as of and for the year ended June 30, 2007 and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
November 30, 2007

Mound Street Military Careers Academy
Schedule of Prior Audit Findings
June 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain:***
2006-001	Material Weakness – Bank Reconciliations and Accounting Errors	Yes	

Mary Taylor, CPA
Auditor of State

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
FEBRUARY 5, 2008

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