Mound Street IT Careers Academy

Montgomery County, Ohio

Regular Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

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

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Mound Street IT Careers Academy, Montgomery County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. 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 IT Careers Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 10, 2007

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
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Mound Street IT Careers Academy
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For the Fiscal Year Ended June 30, 2006

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Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

Independent Auditor's Report

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

We have audited the financial statements of the business-type activities of the Mound Street IT Careers Academy (the Academy), Montgomery County, Ohio, as of and for the year ended June 30, 2006, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-types activities of the Academy, as of June 30, 2006, 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 February 16, 2007, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

As described in Note 3 to the basic financial statements, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
February 16, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Mound Street IT Careers Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2006. 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 $448,989 in fiscal year 2006, which represents a 28.03% increase from fiscal year 2005, as a result of the Academy continuing to be fiscally responsible with regards to managing the Academy funds.

- Total assets increased $460,630 which represents a 27.00% increase from the prior year. The increase is primarily due to the increase in cash and cash equivalents.

- The operating income for fiscal year 2006 in the amount of $24,406 was $26,197 greater than the operating loss reported for fiscal year 2005. This increase is due largely in part in an increase in Foundation and other operating revenues between years.

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 answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources 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.

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

Table 1 provides a summary of the Academy's net assets for 2006 compared to 2005.

Table 1
Net Assets

	2006	2005*
Assets:		
Current and Other Assets	$1,911,834	$1,459,071
Capital Assets, Net	254,870	247,003
Total Assets	2,166,704	1,706,074
Liabilities:		
Current and Other Liabilities	94,295	100,238
Noncurrent Liabilities	21,669	4,085
Total Liabilities	115,964	104,323
Net Assets:		
Invested in Capital Assets	254,870	247,003
Restricted	489,343	690,262
Unrestricted	1,306,527	664,486
Total Net Assets	$2,050,740	$1,601,751

*As restated. See Note 3 of the notes to the basic financial statements.

Total net assets of the Academy increased by $448,989 or 28.03%. The increase in total net assets from fiscal year 2006 is due to an increase in various grants received by the Academy during fiscal year 2006. The $460,630 increase in total assets is attributable to the increase in cash and cash equivalents. Total liabilities reported at June 30, 2006 increased by $11,641 from the amount reported at June 30, 2005, primarily due to the increase in compensated absences payable.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and 2005.

Table 2
Change in Net Assets

	2006	2005*
Revenues		
Operating revenues:		
Foundation payments	$1,007,595	$964,091
Other operating revenues	262,104	177,636
Total Operating revenues	1,269,699	1,141,727
Non-operating revenues:		
State and federal grants	390,916	427,728
Interest earnings	33,667	9,101
Total non-operating revenues	424,583	436,829
Total Revenues	1,694,282	1,578,556
Expenses		
Operating expenses:		
Salaries	675,015	492,077
Fringe benefits	151,952	137,402
Fiscal services	0	28,000
Building rental	0	5,000
Other purchased services	305,116	221,315
Materials and supplies	56,774	217,915
Depreciation	25,595	17,493
Other expenses	30,841	24,316
Total Expenses	1,245,293	1,143,518
Net Assets at Beginning of Year*	1,601,751	1,166,713
Increase in Net Assets	448,989	435,038
Net Assets at End of Year	$2,050,740	$1,601,751

*As restated. See Note 3 of the notes to the basic financial statements.

Foundation payments increased $43,504 from 2005 to 2006, due to an increase in the number of students enrolled in the Academy. Other operating revenue increased $84,468 from 2005 to 2006, due primarily to a couple of large donations received during 2006. The increase in salaries is due to general salary increases and the addition of four non-certificated employees. These expenses were partially offset by decreases in general operating supplies. Other purchased services also increased significantly due to increased expenditures for professional and technical services. Material and supplies expenses decreased significantly due to a large purchase of equipment below the capitalization threshold in 2005.

Capital Assets

At June 30, 2006, the capital assets of the Academy consisted of a building in the amount of $177,449 off-set by $12,281 in accumulated depreciation, furniture and equipment amounting to $113,472 with accumulated depreciation of $31,205, and vehicles in the amount of $7,435 with no accumulated depreciation resulting in net capital assets of $254,870. The Academy made building improvements and purchased new computers, other technology equipment and vehicles amounting to $33,462. Depreciation expense for the fiscal year ended June 30, 2006 amounted to $25,595 as compared to $17,493 for the fiscal year ended June 30, 2005.

See Note 5 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 IT 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 IT Careers Academy
Attn: Treasurer
354 Mound Street
Dayton, Ohio 45402
(937) 223-3041

Mound Street IT Careers Academy
Statement of Net Assets
June 30, 2006

ASSETS:	
Current Assets:	
Cash and cash equivalents	$1,591,470
Investments	299,054
Receivables:	
Accounts	22
Intergovernmental	21,288
Total current assets	1,911,834
Noncurrent Assets:	
Capital Assets, net of accumulated depreciation	254,870
Total assets	$2,166,704
LIABILITIES:	
Current Liabilities:	
Accounts payable	$23,809
Accrued wages and benefits	60,427
Intergovernmental payable	10,059
Total current liabilities	94,295
Noncurrent Liabilities:	
Compensated absences payable	21,669
Total noncurrent liabilities	21,669
Total liabilities	115,964
NET ASSETS:	
Invested in capital assets	254,870
Restricted	489,343
Unrestricted	1,306,527
Total net assets	$2,050,740

See accompanying notes to the basic financial statements.

Mound Street IT Careers Academy

Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

OPERATING REVENUES:	
Foundation payments	$1,007,595
Charges for services	16,276
Other operating revenue	245,828
Total operating revenues	1,269,699
OPERATING EXPENSES:	
Salaries	675,015
Fringe benefits	151,952
Other purchased services	305,116
Materials and supplies	56,774
Depreciation	25,595
Other	30,841
Total operating expenses	1,245,293
Operating income	24,406
NON-OPERATING REVENUES:	
Interest earnings	33,667
State and federal grant revenue	390,916
Total non-operating revenues	424,583
Change in net assets	448,989
Net assets, beginning of year - As Restated - See Note 3	1,601,751
Net Assets, end of year	$2,050,740

See accompanying notes to the basic financial statements.

Mound Street IT Careers Academy

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash from State of Ohio	$1,007,595
Cash from charges for services	16,276
Cash payments to suppliers for goods and services	(397,106)
Cash payments to employees for services and benefits	(810,951)
Other operating revenue	333,310
Net cash provided by operating activities	149,124
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal and state subsidies	510,296
Net cash provided by noncapital financing activities	510,296
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment for capital acquisitions	(33,462)
Net cash used by capital and related financing activities	(33,462)
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in fair market value of investments	(4,054)
Interest earnings	33,667
Net cash provided by investing activities	29,613
NET INCREASE IN CASH AND CASH EQUIVALENTS	655,571
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	935,899
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,591,470
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$24,406
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	25,595
Changes in assets and liabilities:	
Decrease in accounts receivable	87,482
Decrease in accounts payable	(4,375)
Decrease in accrued wages and benefits payable	(1,039)
Decrease in intergovernmental payable	(529)
Increase in compensated absences payable	17,584
Total adjustments	99,123
Net cash provided by operating activities	$149,124

See accompanying notes to the basic financial statements.

NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Mound Street IT Careers Academy (the Academy) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The Academy, which is part of the State's education program, is independent of any School District. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy entered into a contract with Keys to Improving Dayton Schools, Inc. (KIDS) to provide treasurer and financial management services to the Academy. The Academy paid $23,333 to KIDS for these services during fiscal year 2006. These payments are reflected as fiscal services expense on the financial statements.

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, 2005 through June 30, 2006. 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 eight non-certified support personnel who provide services to an enrollment of 130 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus and basis of accounting

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

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

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary process

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

The Board of Trustees adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The Academy Superintendent 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, certificates of deposit, and investments. For internal accounting purposes, the Academy segregates its cash.

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 2006, investments were limited to Federal National Mortgage Association (FNMA) Notes, Federal Home Loan Mortgage Corporation (FHLMC) Notes, and Federal Home Loan Bank (FHLB) Notes. Investments are reported at fair market value, which is based on quoted market price.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intergovernmental revenues

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

Amounts awarded under state and federal grant or entitlement programs for the 2006 fiscal year totaled $1,398,511.

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, 2006 including:

Wages Payable – salary payments made after year-end for services rendered in fiscal year 2006. 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, 2006 for the first salary payments made to personnel in the month of July 2006.

Intergovernmental payable – payment for the SERS' surcharge and workers' compensation ($10,059) associated with services rendered during fiscal year 2006, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets

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

As of June 30, 2006, of the Academy's $489,343 restricted net assets, none were 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.

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

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 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

For the fiscal year 2006, the Academy implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have an effect on the financial statements, nor did their implementation require a restatement of prior year balances.

The Academy noted accounting errors in reporting capital assets and related accumulated depreciation as of July 1, 2005 and corrected such errors.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS (Continued)

These restatements had the following effect on net assets as previously reported:

Net Assets, June 30, 2005	$1,656,198
Restatement of Capital Assets, Net	(54,447)
Restated Net Assets, June 30, 2005	$1,601,751

NOTE 4 – 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. Protection of the Academy's deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets.

At June 30, 2006, the bank balance was $1,618,122. $300,000 was covered by federal depository insurance. $1,318,122 of the bank deposits was exposed to custodial credit risk because they are uninsured and uncollateralized. Although all statutory requirements for the deposit of money have been followed, non-compliance with the federal requirements could potentially subject the Academy to a successful claim by the FDIC.

Investments

Investments are reported at fair value. As of June 30, 2006, the Academy had the following investments:

	Fair Value	Investment Maturities	Percent of Total Portfolio	Credit Ratings Moody's	Credit Ratings S & P
Federal Home Loan Mortgage Corp.	$99,806	Less than 1 year	33.37%	Aaa	AAA
Federal Home Loan Bank	99,014	Less than 1 year	33.11%	Aaa	AAA
Federal National Mortgage Association	100,234	Less than 1 year	33.52%	Aaa	AAA
Total Investments	$299,054		100.00%		

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.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit ratings of the investments are shown in the above table. The Academy's policy does not address credit risk for investments.

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 percentages that each investment category comprises of total investments are shown in the above table. 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 5 – CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2006, follows:

	Balance 6/30/2005*	Additions	Deductions	Balance 6/30/2006
Capital Assets, being Depreciated				
Building	$162,883	$14,566	$0	$177,449
Furniture and Equipment	102,011	11,461	0	113,472
Vehicles	0	7,435	0	7,435
	264,894	33,462	0	298,356
Less: Accumulated Depreciation				
Building	(3,393)	(8,888)	0	(12,281)
Furniture and Equipment	(14,498)	(16,707)	0	(31,205)
	(17,891)	(25,595)	0	(43,486)
Capital Assets, net	$247,003	$7,867	$0	$254,870

*As restated – see Note 3.

NOTE 6 – RISK MANAGEMENT

Property and liability – The Academy is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the Academy contracted with Cincinnati 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 $1,000 deductible for 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 Cincinnati Insurance Company also provides umbrella liability coverage of $4,000,000 per occurrence, as well as in the aggregate.

NOTE 6 – RISK MANAGEMENT (Continued)

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description. The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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 (614) 222-5853.

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 2006, 10.58% 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, 2006, 2005 and 2004 were $4,488, $6,600 and $3,505, respectively, equal to 100% for 2006, 2005 and 2004.

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. STRS Ohio issues a stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614)227-4090, 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation 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 a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

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.

Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. For the fiscal year ended June 30, 2006, plan members were required to contribute 10% of their annual covered payroll for members and 14% for employers; 13% was the portion used to fund pension obligations. The Academy's required contributions for pension obligations to STRS for fiscal years ended June 30, 2006, 2005, and 2004 were $51,948, $45,900, $40,763, respectively; which is the required contribution for those years.

NOTE 8 - 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, 2006, the STRS board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $3,996 during the 2006 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2006, 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 gives 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, 2005, 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. For the fiscal year ended June 30, 2006, the health care allocation is 3.42%. 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 2006, the minimum pay has been established as $35,800. For the Academy, the amount to fund health care benefits, including the surcharge equaled $3,173 during the 2006 fiscal year.

NOTE 8 - POST-EMPLOYMENT BENEFITS (Continued)

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. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2006 were $158,751,207. The target level for the health care fund 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 9 - 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 2006, 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 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.

NOTE 10 – LONG-TERM OBLIGATIONS

Changes in long-term obligations of the Academy during fiscal year 2006 were as follows:

	Balance Outstanding At June 30, 2005	Additions	Deletions	Balance Outstanding At June 30, 2006	Amount Due in One Year
Compensated Absences	$4,085	$21,669	$4,085	$21,669	$0

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

NOTE 11 – RELATED PARTIES

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

NOTE 12 – OTHER PURCHASED SERVICES

During the fiscal year ended June 30, 2006, other purchased service expenses for services rendered by various vendors were as follows:

Professional & technical services	$211,424
Property Services	34,079
Travel Mileage/Meeting Expense	1,998
Communications	3,828
Electricity	15,256
Water & Sewer	2,274
Gas	4,157
Contracted Craft/Trade Services	13,987
Tuition	8,766
Pupil Transportation	8,890
Other Purchased Services	457
Total Other Purchased Services	$305,116

NOTE 13 – SUBSEQUENT EVENT

On October 25, 2006, the Ohio Supreme Court ruled (See Note 9) that publicly funded, privately operated Community (i.e., Charter) Schools is constitutional

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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*

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

We have audited the financial statements of the business-type activities of the Mound Street IT Careers Academy (the Academy), Montgomery County, Ohio, as of and for the year ended June 30, 2006, which comprise the Academy's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 16, 2007, in which we indicated the Academy implemented GASB Statements No. 42, 46, and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and responses as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However we consider reportable condition item 2006-1 to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Board members, federal awarding agencies and pass-through entities, 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.
February 16, 2007

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

Finding Number 2006-1
Material Weakness – Bank Reconciliations and Accounting Errors

The Academy did not perform bank reconciliations on a timely basis. Furthermore, reconciliations performed were inaccurate and incomplete, as evidenced by numerous cash-related audit adjustments. The Academy is a related organization of the Mound Street Health Careers Academy and the Mound Street Military Careers Academy. In certain situations, one Academy may receive or disburse monies on behalf of the other two Academies with the intent of reimbursing or being reimbursed by those Academies. Appropriate accounting adjustments would also have to be made as a result of the shared expenditures or receipts. In several instances, bank transfers and/or accounting adjustments should have been made and were not made timely or at all. Supporting documentation for these types of transactions was not maintained.

Due to the untimely and inaccurate bank reconciliations performed, the above errors were not detected in a timely manner and in most instances, were not detected at all, resulting in inaccurate financial records and inaccurate cash balances throughout the year and at fiscal year end.

The Academy should review its procedures regarding posting of receipts and expenditures and determine where it is possible to segregate receipts and expenditures so that transferring of monies between Academies' accounts is not necessary. Where the Academy determines it is not feasible or even possible to segregate such monies, the Academy should implement procedures to ensure that transfers between bank accounts and postings to the accounting system are performed timely and accurately. An adequate audit trail of these types of transactions should be maintained to support the recording of shared monies and the bank transfers made to reimburse the other Academies. Furthermore, bank reconciliations should be performed on a monthly basis and any unreconciled differences should be investigated and resolved immediately.

Currently, the Board of Trustees receives a monthly financial report from the Treasurer. However, the detail of these reports is not reviewed for accuracy by any individual prior to receipt. In addition to this control already in place, the Academy should consider having an individual perform a detailed review of the bank reconciliation performed and have the individual sign the reconciliation as indication of his/her review, to ensure the Board receives accurate monthly financial reports allowing for informed decision-making.

Client Response:
Background:
During FY06, treasurer services were outsourced to Keys To Improving Dayton Schools, Inc., a non-profit subsidiary of the Fordham Foundation. Early on, Management noted <u>numerous</u> incidents of payroll errors, errors in computing sick leave, untimely payments to vendors and vendors receiving incorrect under- and over-payments for goods and services. As a result, Management sought to hire another entity to perform services at the conclusion of the K.I.D.s' contract. During a transition audit to the new Treasurer, performed by Balestra, Harr & Scherer, CPAs, it became apparent that there were no monthly reconciliations occurring and that there were numerous errors and omissions in all areas of their bookkeeping. The audit firm and Management agreed that the full audit for FY06 should be performed.

Remedy:
The newly contracted Treasurer, Deborah Dynes, LLC, works closely with the newly-hired Assistant Treasurer, who herself is a licensed school treasurer and a full-time employee who reports directly to the Superintendent. Her full-time status gives Management daily access to financial data and facilitates the timely processing of financial data.

The new financial team has taken steps to segregate receipts and expenditures so that transferring monies among academies occurs only when absolutely necessary. For example, bank analysis fees are now debited from each academy's bank account and no longer require transfers. In other instances when this is not possible, transfers are being done in a timely and accurate manner.

Client Response (Continued):
All accounts are now reconciled on a monthly basis for each academy. A check and balance system has been implemented whereby the Assistant Treasurer processes daily transactions, and the Treasurer processes monthly bank reconciliations. Reconciliations are always available for Management review.

Subsequent to the audit, the new financial team met with the auditor to adjust balances according to audit findings and move forward with accurate data.

Mary Taylor, CPA
Auditor of State

MOUND STREET IT 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
MAY 10, 2007

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