SPRINGFIELD ACADEMY OF EXCELLENCE, INC
CLARK COUNTY, OHIO

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants

Auditor of State
Betty Montgomery

Board of Trustees
Springfield Academy of Excellence
623 South Center Street
P.O. Box 1566
Springfield, Ohio 45501

We have reviewed the *Report of Independent Accountants* of the Springfield Academy of Excellence, Clark County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 12, 2006

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SPRINGFIELD ACADEMY OF EXCELLENCE, INC.
CLARK COUNTY
For the Year Ending June 30, 2005

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Certified Public Accountants

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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees of
Springfield Academy of Excellence
Springfield, Ohio

We have audited the accompanying basic financial statements of the Springfield Academy of Excellence (the Academy) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 21, 2006 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
June 21, 2006

The discussion and analysis of Springfield Academy of Excellence's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- Total net assets increased $124,952 in fiscal year 2005 from fiscal year 2004. The nearly $125,000 increase in net assets invested in capital assets, net of accumulated debt accounts for majority of this increase. At the end of fiscal year 2005, the Academy completed construction on its new school building. The total cost of the building was $530,832 of which $234,508 was capitalized during fiscal year 2005. The building loan used to finance the construction of the school building increased the Academy's debt obligations by $172,231 during the year.

- Total assets increased $354,383 from the prior year, due primarily to the above noted capital asset project.

- The $256,887 operating loss reported for fiscal year 2005 was $22,669 less than the operating loss reported for fiscal year 2004, an 8.0 percent decrease. While the cost of personnel and other items continue to increase, the primary factor attributing to the operating loss is state and federal grant revenues. These revenues are reported as non-operating while all the costs of these grants are reported as operating.

Using this Financial Report

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

Statement of Net Assets

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

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated. Table 1 provides a summary of the Academy's net assets for fiscal year 2005 compared with fiscal year 2004.

Table 1
Net Assets

	2005	2004
Assets:		
Current and other assets	$ 310,411	$ 156,880
Capital assets, net	836,656	635,804
Total Assets	1,147,067	792,684
Liabilities:		
Current liabilities	141,968	84,768
Non-current liabilities	402,203	229,972
Total Liabilities	544,171	314,740
Net Assets:		
Invested in capital assets	427,999	399,378
Restricted	75,128	76,683
Unrestricted	99,769	1,883
Total Net Assets	$ 602,896	$ 477,944

Total net assets of the Academy increased by $124,952 from the net assets reported at June 30, 2004. Net assets invested in capital assets, net of related debt, increased by $28,621 from fiscal year 2004 and represents approximately 80 percent of the increase in total net asset for the Academy. During fiscal year 2005, the Academy completed the construction of a new school building on the same location as the existing school. As of June 30, 2005 the school building was completed totaling $530,832. Of the $530,832 of the new school building, $296,324 was included as Construction in Progress in fiscal year 2004. The Academy entered into a construction loan to finance this project and as of June 30, 2005 $409,998 of the approved loan amount had been drawn down to pay the related construction costs of the school building. The Academy paid $7,795 against the principal and $28,203 in interest during fiscal year 2005.

The increase in the outstanding principal amount of the construction loan accounts for all of the increase in non-current liabilities as of June 30, 2005 compared with those reported at June 30, 2004. The increase in current liabilities resulted from primarily an increase in accrued wages and accounts payable.

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

Table 2
Changes in Net Assets

	2005	2004
Operating Revenues:		
Foundation payments	$ 1,233,252	$ 1,006,072
Disadvantage Pupil	278,656	145,983
Donated leases	154,258	144,002
Other operating revenues	23,861	6,998
Non Operating Revenues:		
State and federal grants	383,491	644,582
Donations and fundraising	34,299	97,488
Interest	47	77
Total Revenues	2,107,864	2,045,202
Operating Expenses:		
Salaries	962,828	776,391
Fringe benefits	234,854	175,633
Lease payments	263,653	262,454
Other purchased services	196,278	163,327
Materials and supplies	208,743	178,655
Depreciation	56,897	8,772
Other expenses	23,661	17,379
Non Operating Expenses:		
Interest and fiscal charges	35,998	475
Total Expenses	1,982,912	1,583,086
Change in net assets	124,952	462,116
Net assets, beginning of year	477,944	15,828
Net assets, end of year	$ 602,896	$ 477,944

Total revenue received by the Academy in fiscal year 2005 increased by $62,662 or 3.1 percent as compared with fiscal year 2004. As shown in Table 2 above, there were significant increases in state foundation payments and disadvantage pupil funds, mainly due to an increase in the number of students enrolled in the Academy. State and federal grants decreased as the Academy received a construction grant in the prior year which was a one-time funding source.

In fiscal year 2005, the Church of Jesus Family Worship Center (the Church) forgave $144,001 in lease payments associated with the Academy's use of multipurpose room, office space, and the annex owned by the Church. In fiscal year 2005, the Church and Precious Gifts forgave a total of $154,258.

All other expense categories increased by approximately 36.15 percent during fiscal year 2005. Wage increases for employees, increased need for instructional support services, and increased spending related to textbooks and instructional supplies were the main components of the increase.

Capital Assets

At June 30, 2005 the capital assets of the Academy totaled $910,064 with accumulated deprecation being $79,862. A break down of the Academy's capital assets is presented below.

Table 3
Capital Assets, Net of Depreciation

	2005	2004
Buildings	$ 530,832	$ -
Leasehold Improvements	264,425	308,495
Equipment	34,945	24,531
Construction in Progress	-	296,324
Total	$ 830,202	$ 629,350

The new school building was completed at the end of the fiscal year, and, therefore the amount previously reported as construction in progress associated with the building was reclassified to buildings along with the construction costs incurred during fiscal year 2005. The current year depreciation of $56,897 did not include depreciation on the new school building since the completion of the project was completed late in fiscal year 2005. See Note 5 of the notes to the basic financial statements for additional information on the Academy's capital assets.

Debt

At June 30, 2005, the debt obligations of the Academy consisted solely of the construction loan obtained to provide financing for the construction of the new school building. During the course of the fiscal year the Academy drew an additional $180,000 to increase their construction loan to $409,998. The Academy made total payments of $7,795 in the fiscal year on the principal, which resulted in an outstanding amount totaling $402,203 at year-end.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Springfield Academy of Excellence, Inc. 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: Springfield Academy of Excellence, 623 South Center Street, Springfield, Ohio 45502.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Statement of Net Assets

June 30, 2005

Assets		
Current assets:		
Cash and cash equivalents	$	245,625
Receivables:		
Grants		64,786
Total current assets		310,411
Noncurrent assets:		
Security deposit		6,454
Depreciable capital assets (net of accumulated depreciation)		830,202
Total noncurrent assets		836,656
Total assets		1,147,067
Liabilities:		
Current liabilities:		
Accounts payable		33,282
Accrued wages payable		69,522
Intergovernmental payable		18,378
Compensated absences payable		20,786
Total current liabilities		141,968
Noncurrent liabilities:		
Notes payable		402,203
Total liabilities		544,171
Net Assets:		
Invested in capital assets, net of related debt		427,999
Restricted		75,128
Unrestricted		99,769
Total net assets	$	602,896

See accompanying notes to the financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2005

Operating revenues:		
Foundation payments	$	1,233,252
Disadvantaged pupil impact aid		278,656
Donated leases		154,258
Charges for services		21,181
Miscellaneous operating revenue		2,680
Total operating revenues		1,690,027
Operating expenses:		
Salaries		962,828
Fringe benefits		234,854
Lease payments		263,653
Other purchased services		196,278
Materials and supplies		208,743
Depreciation		56,897
Other		23,661
Total operating expenses		1,946,914
Operating loss		(256,887)
Non-operating revenues and (expenses):		
State and federal grant revenue		383,491
Gifts and donations		30,719
Fundraising		3,580
Interest earnings		47
Interest and fiscal charges		(35,998)
Total non-operating revenues		381,839
Changes in net assets		124,952
Net assets at beginning of year		477,944
Net assets at end of year	$	602,896

See accompanying notes to the financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.
Statement of Cash Flows
Year Ended June 30, 2005

Increase(Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:		
Cash from State of Ohio	$	1,511,908
Cash from customers		22,483
Cash payments to suppliers for goods and services		(518,503)
Cash payments to employees for services and benefits		(1,160,056)
Other operating revenue		2,680
Net cash used for operating activities		(141,488)
Cash flows from noncapital financing activities:		
Federal and state subsidies		343,109
Gifts and contributions		30,719
Fundraising activities		3,580
Net cash provided by noncapital financing activities		377,408
Cash flows from capital and related financing activities:		
Note Proceeds		180,026
Principal paid on notes		(7,795)
Interest paid on notes		(35,998)
Cash payments for capital acquisitions		(257,749)
Net cash used for capital and related financing activities		(121,516)
Cash flows from investing activities:		
Interest on investments		47
Net Increase in Cash and Cash Equivalents		114,451
Cash and Cash Equivalents, Beginning of Year		131,174
Cash and Cash Equivalents, End of Year	$	245,625

(Continued)

See accompanying notes to the financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.
Statement of Cash Flows
Year Ended June 30, 2005
(Continued)

Reconciliation of operating loss to net cash used for for operating activities		
Operating loss	$	(256,887)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation		56,897
Changes in assets and liabilities:		
Decrease in accounts receivable		1,302
Increase in accounts payable		20,175
Increase in accrued wages payable		22,621
Increase in intergovernmental payable		3,021
Increase in compensated absences payable		11,383
Total Adjustments		115,399
Net cash used for operating activities	$	(141,488)

Non-Cash Item:

During the fiscal year ended June 30, 2005 lease obligations of $154,258 were forgiven and not evidenced by cash transactions.

See accompanying notes to the financial statements.

1. Description of the Academy and Reporting Entity:

Springfield Academy of Excellence, Inc. (the Academy) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702. The Academy's objective is to provide education in a nurturing environment that focuses on the development of the whole child. Emphasis is placed on academic achievement as well as physical, psychological, social and ethical development. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

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. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

The Academy was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing after May 29, 2001. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. Effective on July 1, 2005, the Fordham Foundation is the Academy's sponsor for the next five years.

The Academy operates under the direction of a Governing Board of at least seven members. The Governing Board is responsible for carrying out the provisions of the contract which includes, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 18 non-certified and 16 certificated full-time teaching personnel.

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.

A. Basis of presentation

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

B. Measurement focus and basis of accounting

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

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

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

C. Budgetary process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash and cash equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash. For the purposes of the statement of net assets, 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.

E. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of $500. 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 leasehold improvements, equipment, and buildings is computed using the straight-line method over estimated useful lives of seven, five, and forty years, respectively. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

F. Intergovernmental revenues

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met. Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grant have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Amounts awarded under federal grant and state entitlement programs for the 2005 school year totaled $1,913,282.

G. Accrued liabilities payable

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

Wages Payable – salary payments made after year-end that were for services rendered in fiscal year 2005. Teaching personnel are paid in 24 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2005 for all salary payments made to teaching personnel during the month of July 2005.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($13,804), workers' compensation ($543) and Medicaid ($1,008) associated with services rendered during fiscal year 2005, but were not paid until the subsequent fiscal year. In addition to salary related payments, the Academy owed $3,023 to other governmental agencies for miscellaneous obligations at June 30, 2005.

H. Compensated Absences

Paid time off benefits are accrued as a liability as the benefits are earned if the employees' right to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means. The Academy records a liability for fifty percent of accumulated unused sick and personnel days earned by all employees.

I. Security Deposit

The Academy entered into several leases for the use of the building for the administration of the Academy, for computer start-up costs and computer equipment, and for use of a certain phone company for which security deposits were required to be paid at the signing of the agreement. These amounts are held by the respective leaser/vendor.

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

K. Operating and non-operating revenues and expenses

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

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

L. Estimates

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

3. Cash Deposits:

At June 30, 2005, the carrying amount of the Academy's deposits was $245,625 and the bank balance was $278,167. Of the bank balance $100,000 was covered by federal deposit insurance and the remaining amounts are collateralized with securities held by the pledging financial institution's trust department or agent in the Academy's name.

4. Receivables:

Receivables at June 30, 2005, consisted of intergovernmental grants from both the Federal and State. All receivables are considered collectible in full.

Intergovernmental receivable of the Academy at June 30, 2005 consisted of Federal reimbursements of $8,580 for operation of food service program, $14,291 for Title VI-B program, $901 for Title V program, $2,357 for Title IV Program, $7,429 for the Title II-A Program, $3,005 for the Title II-D Technology, $27,318 for Title I Program, and $905 for the Early Childhood Special Education Program, to students in fiscal year 2005, but were not received until after year-end.

5. Capital Assets:

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

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Construction-in-progress	$ 296,324	$ -	$ 296,324	$ -
Depreciable capital assets:				
Building	-	530,832	-	530,832
Leasehold Improvements	308,495	-	-	308,495
Equipment	47,496	23,241	-	70,737
	652,315	554,073	296,324	910,064
Less: accumulated depreciation on:				
Building	-	-	-	-
Leasehold Improvements	-	(44,070)	-	(44,070)
Equipment	(22,965)	(12,827)	-	(35,792)
	(22,965)	(56,897)	-	(79,862)
Total depreciable capital assets, net	333,026	497,176	-	830,202
Capital assets, net	$ 629,350	$ 497,176	$ 296,324	$ 830,202

6. Risk Management:

Property and liability – The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the Academy contracted with Cincinnati Insurance Co. for property, general liability, auto, and excess liability insurance. Property is covered for $237,900 and contents are insured for $343,900. There is a deductible of $250 and property and contents are 90 percent co-insured. Commercial general liability covers each single occurrence for $1 million with a $2 million general aggregate limit. Automobile liability has a combined single limit of $1 million. The excess liability is covered for $1 million for each occurrence and $1 million in the aggregagte.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

Worker's compensation – The Academy pays the State Worker's Compensation System a premium for employee injury by the State.

Employee insurance benefits – The Academy has contracted through an independent agent to provide employee medical insurance to its full-time employees who work 25 or more hours per week.

7. Notes Payable:

The activity of the Academy's promissory notes payable is summarized as follows:

Obligation		Beginning Balance		Additions		Payments		Ending Balance
2004 Construction Note – Huntington National Bank		229,972		180,026		7,795		402,203
Totals	$	229,972	$	180,026	$	7,795	$	402,203

During fiscal year 2004, the Academy entered into a construction loan with Huntington National Bank for the construction of a new school building. The total amount of the loan was set at $409,998 to be repaid over 60 months after the completion of the construction project, with only interest payments due during the six month construction period. The interest rate was set at Prime plus one (1) percent. The loan was guaranteed in full by the Church of Jesus, Inc. through a third mortgage secured on real property located at 623 South Center Street, Springfield, Ohio. In addition, the Ohio School Facilities Commission has guaranteed 85 percent of the project for the first 15 years of the loan. Loan proceeds are accessible through monthly draws to pay certified construction costs; at June 30, 2005 the total construction loan amount, $409,998, had been drawn; however, the Academy had made payments on the principal in the amount of $7,795, leaving $402,203 as the balance at year-end. As of June 30, 2005 no official repayment schedule had been set for the construction loan.

8. Defined Benefit Pension Plans:

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statue 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 43215-3476 or by calling (614) 222-5853.

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. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; at June 30, 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005, 2004 and 2003 were $34,910, $26,115 and $26,714, respectively; 100 percent has been contributed for each of the fiscal years.

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 provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute the statutory maximum of 10.0 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations for the fiscal year ended June 30, 2005, 2004 and 2003 were $87,900, $66,512 and $69,133, respectively; 100 percent has been contributed for each of the fiscal years.

9. Postemployment Benefits:

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B Coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2005 and June 30, 2004, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was $3.3 billion on June 30, 2005. For the Academy, this amount equaled $6,279 during the 2005 fiscal year.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, the allocation rate is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including the surcharge, was $8,268 for fiscal year 2005.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premiums contributed for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. 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 percent of estimated annual net claim costs. The number of participants eligible to receive benefits at June 30, 2005 was 58,123.

10. Fiscal Services:

The Academy entered into a contract with Keys to Improving Dayton Schools, Inc. (KIDS) to provide treasurer and financial management services for a twelve month period beginning July 1, 2004 for a monthly fee of $3,500.

11. Restricted Net Assets:

At June 30, 2005 the Academy reported restricted net assets totaling $75,128. The nature of the net asset restrictions are as follows:

Federal specific educational program grants	$ 41,520
Capital related grants and contributions	7,165
State specific educational program grants	21,676
Miscellaneous restricted grants and contributions	4,767
Total	$ 75,128

12. Contingencies:

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to state funding for fiscal year 2005, as a result of such review.

C. Litigation

A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the state constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other 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.

13. State School Funding Decision:

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "… the Ohio General Assembly to enact a school funding scheme that is thorough and efficient …". The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

14. Operating Leases:

The Academy is leasing the use of land, office and classroom space, and various pieces of equipment through operating leases with the Church of Jesus Family Worship Center (the Church), the Precious Gifts Day Care Center (the Day Care Center), and Modular Designs. Lease obligations to the Church for fiscal year 2005 totaled $180,001. The Academy paid $36,000 of these obligations, with the Church forgiving the remaining $144,001. Lease obligations to the Day Care Center totaled $21,852 in fiscal year 2005. The Academy paid $11,595 of these obligations, with Precious Gifts forgiving the remaining $10,257. Lease obligations to Modular Designs totaled $61,800 that the Academy paid in full.

Individual lease obligations include:

- A ninety-nine year lease between the Church and the Academy which stipulates the Academy will be permitted to use Church grounds for an annual fee of one dollar for construction of the new school building. For fiscal year 2005, the lease was forgiven by the Church. Lease payments are expected to remain the same for the remaining term of the lease.

- A lease of land from the Church in the amount of $144,000 for fiscal year 2005 was forgiven by the Church. Lease payments are expected to remain the same for the remaining term of the lease.

- A lease of the Annex and other building space from the Church, beginning October 1, 2001 through July 1, 2006 in the amount of $3,000 per month. During fiscal year 2005, the Academy paid $36,000 related to this lease agreement. Lease payments are expected to remain the same for the remaining term of the lease.

- In March 2004, the Academy signed lease agreement with Modular Designs for 12 double modular systems for a twelve month period with lease obligations of $5,150 per month. During fiscal year 2005, the Academy paid $61,800 to Modular Designs related to these lease payments. Lease payments are expected to remain the same for the remainder of the lease.

- The Academy leases food storage space and freezer space, and certain equipment from the Day Care Center. Lease obligations related to these items totaled $21,852 for fiscal year 2005 with the Academy paying a total of $11,595 during the fiscal year. The remaining $10,257 was forgiven. Lease payments are expected to remain the same for the remaining term of these leases.

15. Related Parties:

During the fiscal year ended June 30, 2005, the Academy made payments on several lease agreements with the Precious Gifts Day Care Center (the Day Care Center) and the Church of Jesus Family Worship Center (the Church), which are affiliated with the Director and a Trustee of the Academy. The Director is the operator of the Day Care Center and the Trustee is the Pastor of the Church. Lease expenses recognized to the Day Care Center were $21,852 and to the Church were $180,001 for the fiscal year ended June 30, 2005.

16. Other Purchased Services:

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

Professional and technical services	$	118,685
Meetings and travel		39,422
Pupil transportation		15,970
Property services		13,668
Utilities		4,835
Contractual labor		2,615
Communication & networking services		1,083
	$	196,278

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Springfield Academy of Excellence
Springfield, Ohio

We have audited the financial statements of the Springfield Academy of Excellence (the "Academy") as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements and have issued a report thereon dated June 21, 2006. 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 Controls Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated June 21, 2006.

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, grant agreements and other matters 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Academy in a separate letter dated June 21, 2006.

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

Charles E. Harris and Associates, Inc.
June 21, 2006

SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2005

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2004-001	School did not record bank payments made on behalf of the School.	Yes	Not such transactions occurred in fiscal year 2005.

Auditor of State
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SPRINGFIELD ACADEMY OF EXCELLENCE

CLARK 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
SEPTEMBER 26, 2006