



**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Governance
Dayton Urban Academy Community School
45 South Main Street
Dayton, Ohio 45402

Board of Governance

We have audited the accompanying balance sheet of the Dayton Urban Academy Community School, Montgomery County, (the School), as of June 30, 2000, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dayton Urban Academy Community School, Montgomery County, as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

At June 30, 2000 the School had an accumulated deficit. A description of management's plans to address the accumulated deficit is described in Note 16.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2001, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

September 7, 2001

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**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2000**

Assets

Current Assets

Intergovernmental Receivables \$55,560

Noncurrent Assets

Furniture and Equipment
(Net of Accumulated Depreciation) 30,463

Total Assets \$86,023

Liabilities and Accumulated Deficit

Current Liabilities

Accounts Payable \$153,577
Accrued Wages and Benefits 77,547
Notes Payable 27,000
Capital Lease Payable 1,790
Intergovernmental Payable 24,648

Total Current Liabilities 284,562

Long-Term Liabilities

Notes Payable 19,000
Capital Lease Payable 6,905

Total Long-Term Liabilities 25,905

Total Liabilities 310,467

Accumulated Deficit (224,444)

Total Liabilities and Accumulated Deficit \$86,023

See Accompanying Notes to the Financial Statements.

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2000**

Operating Revenues	
School Foundation Payments	\$772,590
DPIA Revenues	134,907
Charges for Services	4,818
Other Operating Revenue	<u>3,765</u>
 Total Operating Revenues	 <u>916,080</u>
Operating Expenses	
Salaries	484,771
Fringe Benefits	102,782
Purchased Services	567,668
Materials and Supplies	85,099
Depreciation	4,490
Capital Outlay	26,814
Other Operating Expenses	<u>25,924</u>
 Total Operating Expenses	 <u>1,297,548</u>
Operating Loss	<u>(381,468)</u>
Non-Operating Revenues	
Federal and State Subsidies - Grants	112,664
Other Contributions	<u>44,360</u>
 Total Non-Operating Revenues	 <u>157,024</u>
Net Loss	(224,444)
 Accumulated Deficit at Beginning of Year	 <u>—</u>
Accumulated Deficit at End of Year	<u><u>(\$224,444)</u></u>

See Accompanying Notes to the Financial Statements.

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2000**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$851,935
Cash Received from Charges for Services	4,818
Cash Received from Other Operating Revenue Sources	4,350
Cash Payments to Employees for Services	(461,623)
Cash Payments to Suppliers for Goods and Services	<u>(576,246)</u>

Net Cash Used for Operating Activities (176,766)

Cash Flows from Noncapital Financing Activities

Federal and State Subsidies	112,664
Contributions	<u>44,360</u>

Net Cash Provided by Noncapital Financing Activities 157,024

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	(25,006)
Payments for Capital Lease - Principal	(1,252)
Proceeds from Notes	49,000
Payments for Note Obligations	<u>(3,000)</u>

Net Cash Provided by Capital and Related Financing Activities 19,742

Net Increase in Cash and Cash Equivalents 0

Cash and Cash Equivalents at Beginning of Year 0

Cash and Cash Equivalents at End of Year \$0

**Reconciliation of Operating Loss to Net
Cash Used for Operating Activities**

Operating Loss (\$381,468)

**Adjustments To Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Changes in Assets and Liabilities

Increase in Intergovernmental Receivable	(55,560)
Depreciation	4,490
Increase in Accounts Payable	153,577
Increase in Accrued Wages	77,547
Increase in Intergovernmental Payable	<u>24,648</u>

Total Adjustments 204,702

Net Cash Used for Operating Activities (\$176,766)

See Accompanying Notes to the Financial Statements.

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**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Dayton Urban Academy Community School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades Kindergarten through Eight. The School is in the process of obtaining tax-exempt organizational status under Section 501(c)(3) of the Internal Revenue Code. Management of Oasis Development Corporation is not aware of any course of action or series of events that have occurred that might adversely affect the corporation's tax-exempt status. The Oasis Development Corporation provides management consulting services and other support to the School under various contracts and agreements as discussed in notes 11, 14 and 17.

The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the school. The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 1999 through June 30, 2004 after which, the Academy must apply for an additional contract with the Sponsor. The first school year for students began in September 1999.

The School operates under the direction of a three member Governing Board. The School shares its governing Board with The International Preparatory School Community School (TIPS) which is located in Cleveland, Ohio. TIPS also contracts with Oasis Development Corporation, Inc for management consulting services. The Board is responsible for carrying out the provisions of the contract with the Ohio Department of Education which include, 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 Schools' one instructional/support facility staffed by 7.5 non-certified and 13.5 certified full-time equivalent teaching personnel who provide instructional services to about 160 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School 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 more significant of the School's accounting policies are described below.

A. 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.

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and accumulated deficit components. The operating statement presents increases (e.g., revenues) and decreases (e.g., 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 used 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 the Ohio Revised Code chapter 5705, unless specifically provided by the School's contract with its sponsor. The contract between the School and its sponsor, the Ohio Department of Education, does not prescribe a budgetary process for the School.

D. Cash and Cash Equivalents

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

E. 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.

F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess 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 an asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of three years for computer equipment and five years for other furniture and equipment. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program (through the State Foundation Program). Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$50,000 which was used for startup phase activities.

H. Compensated Absences

Salary employees do not accrue vacation benefits. Hourly employees begin earning vacation benefits after one year of service. For hourly employees, these benefits are recorded as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. As of June 30, 2000, no liability existed for these benefits.

The School does not record a liability for sick leave benefits because its policy is not to pay out accumulated sick leave balances upon termination of employment.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At June 30, 2000, the carrying amount of the School's deposits was \$0 and the bank balance was \$1,495. The bank balance was covered by federal depository insurance.

4. RECEIVABLES

Receivables at June 30, 2000 primarily consisted of intergovernmental (e.g., federal and state grants) receivables. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds.

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

5. FIXED ASSETS

A summary of the School's fixed assets as of June 30, 2000 follows:

Furniture and equipment	\$34,953
Less: Accumulated Depreciation	<u>(4,490)</u>
Net Fixed Assets	<u><u>\$30,463</u></u>

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2000, the School contracted with the Indiana Insurance Company for property, liability, boiler, machinery and professional liability insurance.

B. Workers' Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 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, 45 N. Fourth St., Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the year ended June 30, 2000, 5.5 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 School's required contributions for pension obligations to SERS for the year ended June 30, 2000 was \$6,134, of which \$684 was recorded as a liability.

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the year ended June 30, 2000, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the year ended June 30, 2000 was \$17,798, of which \$8,412 was recorded as a liability.

8. POST EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2000 the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$23,731 for the year ended June 30, 2000, of which \$11,216 was recorded as a liability.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1999, (the latest information available) the balance in the Fund was \$2,783 million. For the year ended June 30, 1999 net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefit recipients.

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

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

8. POST EMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the year ended June 30, 2000 employer contributions to fund health care benefits were 8.50 percent of covered payroll, an increase from 6.3 percent from the prior year. 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, prorated for partial service credit. For the year ended June 30, 2000, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge of \$3,277, during the year ended June 30, 2000, equaled \$12,757, of which \$148 was recorded as a liability.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the year ended June 30, 1999 (the latest information available), were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 41,000 participants currently receiving health care benefits.

9. EMPLOYEE BENEFITS

Employee Medical and Life Insurance Benefits

The School has contracted with a private carrier, Anthem Blue Cross/Blue Shield, to provide medical, prescription and life insurance benefits. The School pays 100% of the monthly premium for these benefits. For the year ended June 30, 2000, the annual cost of such coverage was \$24,081, of which \$11,581 was recorded as a liability.

10. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of September 7, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

11. OPERATING LEASE

The School leases a building and office facility from the Oasis Development Corporation, under a five year operating lease. The terms of this lease commenced September 1, 1999 and continue through August 31, 2004. This lease agreement covers the facility located at 51 Best Street in Dayton, Ohio. The lease payments include the cost of utilities.

Total lease payments due for the year ended June 30, 2000 were \$120,000, of which \$24,000 was recorded as a liability. See Note 16 for related subsequent event disclosure.

Effective February 1, 2001, the School entered into a new lease agreement with Oasis Development Corporation, Inc. for the lease of an administrative and educational facility at 45 South Main Street in Dayton, Ohio. The lease includes all heat, water, electricity, and gas for the period of February 1, 2001 through June 30, 2004 with a monthly payment of \$17,244.

12. CAPITAL LEASE

The School entered into a capitalized lease for a copier for a period of 5 years. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2000.

Year Ending June 30,	Amount
2001	\$2,419
2002	2,419
2003	2,419
2004	2,419
2005	605
Total minimum lease payments	10,281
Less: amount representing interest	(1,586)
Present value of minimum lease payments	\$8,695

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

13. PURCHASED SERVICES

During the year ended June 30, 2000, purchased service expenses were payments for services rendered by various vendors as follows:

Contracted Services	\$328,598
Property Services	189,704
Meeting Expenses	2,949
Communication Services	11,070
Federal Free/ Reduced Lunch Services	32,191
Other	3,156
Total	\$567,668

14. NOTES PAYABLE

During the year ended June 30, 2000, the School obtained interest free financing from Oasis Development Corporation, Inc. These loans were in the form of Note obligations. Payments are due within sixty days of the maturity date. The outstanding balance at June 30, 2000 was \$46,000. See Note 16 for related subsequent event disclosure.

Year Ending June 30,	Amount
2001	\$27,000
2002	19,000
Total	\$46,000

These obligations are not in accordance with the provisions of Ohio Rev. Code Section 3314.08(J).

15. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2000.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalent 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 funding is calculated. The results of this review could result in state funding being adjusted. As a result of the Fiscal Year 2000 review, the School anticipates receiving \$30,087 from the State. These funds are reflected as a receivable on the financial statements.

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

15. CONTINGENCIES (Continued)

C. Litigation

The School is party to several lawsuits of which the outcome can not be determined at this time.

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

16. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

At June 30, 2000, the School's accumulated deficit was \$224,444. The School's management is analyzing operations to determine appropriate steps to alleviate the deficit.

The School's long range plans are to seek increased enrollment through the development and implementation of an aggressive marketing and strategic plan. The School moved to a new facility located at 45 South Main Street which provides additional classroom space which will allow the School to accommodate increased enrollment. However, enrollment had declined at the end of the year ended June 30, 2001.

Effective April 5, 2001, the Oasis Development Corporation, Inc. cancelled \$29,000 of the notes outstanding at June 30, 2000 that were to be paid by the School. Oasis also forgave the April and May 2000 rent payments, totaling \$24,000, that was recorded as a liability on the balance sheet.

17. MANAGEMENT CONSULTING SERVICES

On July 1, 1999, the School entered into an agreement with Oasis Development Corporation to pay \$13,350 per month during the fiscal year ended June 30, 2000 for educational consulting services in the following areas: administration, evaluation, international affairs, policies and procedures, finance, legal issues, technology, assessment, accountability, public relations and advertisement, professional development/staff training, conferences and seminar/workshops. During the year ended June 30, 2000, the School paid a total of \$137,224 to the Oasis Development Corporation and as of June 30, 2000, the School owed Oasis Development Corporation, Inc. a total of \$49,997 for services performed, which is recorded as a liability on the balance sheet. In addition to the contract amount, the School paid Oasis for additional services that included strategic planning, proposal writing and research in an amount of \$27,021.

18. SUBSEQUENT EVENTS

On June 15, 2001, the School received a letter from their insurance provider informing them that the School's employee health insurance policy had been cancelled effective March 15, 2001. The School deducted the employees share of insurance premiums for this three month period from their pay. The School has agreed to pay for valid medical claims incurred during the period the insurance policy was not in force. This liability cannot be determined at this time.

The School has secured a new provider for health insurance benefits for fiscal 2002, with benefits commencing 90 days after individual employee enrollment. For the period from June 15, 2001 until the date employee benefits under the new program begin, employees are responsible for obtaining their own health insurance.

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

Dayton Urban Academy Community School
Montgomery County
45 South Main Street
Dayton, Ohio 45402

To the Board of Governance:

We have audited the financial statements of Dayton Urban Academy Community School, Montgomery County, (the School), as of and for the year ended June 30, 2000, and have issued our report thereon dated September 7, 2001, in which we noted that the School has an accumulated deficit as of June 30, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2000-10357-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School'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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 School's ability to record, process, summarize 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 as item 2000-10357-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 believe that the reportable condition described above to be a material weakness. We also 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 school in a separate letter dated September 7, 2001.

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

Jim Petro
Auditor of State

September 7, 2001

**DAYTON URBAN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2000**

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

Finding Number 2000-10357-001

Noncompliance Citation

Ohio Rev. Code Section 3314.08(J) states that a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payments to be received by the school pursuant to division (D) of this Section. The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money was borrowed. The proceeds of the notes shall be used only for the purpose for which the anticipated receipts may be lawfully expended by the school.

The school borrowed money from OASIS Corporation during fiscal year 2000, however these notes matured beyond the end of the fiscal year.

Finding Number 2000-10357-002

Developing and Implementing Effective Monitoring Controls

The School has not established effective monitoring controls relating to the Governing Board's reviews of the School's financial operations. Effective monitoring controls will allow the Governing Board and management to detect material misstatements in financial information. The following control procedures would strengthen the School's internal control environment:

1. For certain actions, the Governing Board's meeting minutes lacked specific details. It was noted that the minutes included approval, discussion, and inspection of certain documents but these documents were not maintained with the meeting minutes. All support documentation should be maintained as attachments to the minutes to provide a complete and clear record of all actions discussed and taken.
2. The Governing Board does not review detailed or summary financial information of the School. The Governing Board and the Superintendent should review monthly financial reports, bank reconciliations, and detailed receipt and check registers and should require management to prepare and monitor an ongoing budget analysis. The Board should note its review and approval of these items in the minutes.



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OFFICE OF THE AUDITOR

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DAYTON URBAN ACADEMY COMMUNITY SCHOOL

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
OCTOBER 9, 2001**