



**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Academy of Dayton Community School
Montgomery County
4380 Salem Avenue
Dayton, Ohio 45416

To the Board of Trustees:

We have audited the accompanying balance sheet of the Academy of Dayton Community School, Montgomery County, (the School), as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings/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 Academy of Dayton Community School, Montgomery County, as of June 30, 2001, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 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

December 28, 2001

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**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001**

ASSETS

Current Assets

Cash	\$ 144,990
Intergovernmental Receivable	21,343
Accounts Receivable	5,687
Prepaid Expenses	17,369
Security Deposit	<u>2,167</u>

Total Current Assets 191,556

Noncurrent Assets

Furniture and Equipment	<u>7,538</u>
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Total Assets \$ 199,094

LIABILITIES AND FUND EQUITY

Current Liabilities

Accounts Payable	\$ 201,853
Intergovernmental Payable	6,167
Accrued Wages and Benefits	<u>14,675</u>

Total Liabilities 222,695

Fund Equity

Accumulated Deficit	<u>(23,601)</u>
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Total Liabilities and Fund Equity \$ 199,094

The notes to the financial statements are an integral part of this statement.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS/ACCUMULATED DEFICIT
FOR YEAR ENDED JUNE 30, 2001**

Operating Revenues	
Foundation Payments	\$ 417,431
Food Sales	<u>1,768</u>
Total Operating Revenue	<u>419,199</u>
Operating Expenses	
Salaries	167,728
Fringe Benefits	40,693
Payroll Taxes	6,631
Purchased Services	240,558
Materials and Supplies	81,794
Depreciation	<u>1,508</u>
Total Operating Expenses	<u>538,912</u>
Operating Loss	(119,713)
Non-Operating Revenues	
Grants - State	5,000
Grants - Federal	<u>91,112</u>
Total Non-Operating Revenues	<u>96,112</u>
Net Loss	(23,601)
Retained Earnings, Beginning of Year	<u>-</u>
Accumulated Deficit at End of the Year	<u>\$ (23,601)</u>

The notes to the financial statements are an integral part of this statement.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR YEAR ENDED JUNE 30, 2001**

INCREASE (DECREASE) IN CASH

CASH FLOW FROM OPERATING ACTIVITIES

Cash Received from State Foundation	\$ 417,431
Cash Received from Food Program	1,768
Cash Payments to Suppliers for Goods and Services	(129,772)
Cash Payments to Employees for Services	(150,914)
Cash Payments for Employees Benefits	<u>(59,246)</u>

Net Cash Provided by Operating Activities 79,267

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grants Received - State	5,000
Grants Received - Federal	<u>69,769</u>

Net Cash Provided for Noncapital Financing Activities 74,769

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments for Capital Acquisitions	<u>(9,046)</u>
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Net Cash Used by Capital and Related Financing Activities (9,046)

Net Increase in Cash 144,990

Cash, Beginning of Year -

Cash, End of Year \$ 144,990

**RECONCILIATION OF OPERATING LOSS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Loss \$ (119,713)

**Adjustments to Reconcile Operating Loss to Net Cash
Provided by Operating Activities**

Depreciation	1,508
Changes in Assets and Liabilities	
(Increase) in Accounts Receivable	(5,687)
(Increase) in Prepaid Items	(17,369)
(Increase) in Security Deposit	(2,167)
Increase in Payables	208,020
Increase in Accrued Expenses	<u>14,675</u>

Total Adjustments 198,980

Net Cash Provided By Operating Activities \$ 79,267

The notes to the financial statements are an integral part of this statement.

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**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Academy of Dayton, Inc. (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's objective is to prepare all students to be successful citizens, cooperative workers and profitable entrepreneurs by developing their unique potential. This program is offered for students in kindergarten through third grade. 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 school.

The Academy was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing with fiscal year July 1, 1999 through June 30, 2004, after which, the Academy must apply for an additional contract with the Sponsor. The Academy became operational in July of 2000. 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.

The Academy operates under the direction of a self appointing five-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, 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 Academy has one instructional/support facility, staffed by a director, principal, three certified full-time teaching personnel and two non-certified support personnel who provides services to an enrollment of approximately 80 students.

The Board has entered into a management contract with Charter School Administration Services, Inc. (CSAS), to provide consulting services including teacher training, curriculum development, financial management, and State relations. (See Note 11)

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 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 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.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is represented by an accumulated deficit component. The operating statements 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 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 Ohio Revised Code Chapter 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 5-year forecast, which is to be updated on an annual basis.

D. Cash and Cash Equivalents

The Academy's management company, Charter School Administration Services, Inc. (CSAS), which serves as the Academy's fiscal agent, accounts for all monies received by the Academy. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name. Monies for all funds of the Academy are maintained in this account.

E. Prepaid Expenses

The Academy's STRS contributions, through foundation payments, of \$27,996 exceeded the STRS liability of \$10,627 which resulted in a prepaid expense of \$17,369.

F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The Academy 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 five years.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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

Academy of Dayton also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$50,000 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Revenue under the above named programs for the 2001 school year totaled \$513,543.

H. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2001, including:

Wages Payable - salary payments made after year-end that were for services rendered in fiscal year 2001. Certain teaching personnel are paid year round, however, payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2001 for all salary payments made to teaching personnel during the summer of 2001.

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

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by categories 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, 2001, the carrying amount of the Academy's deposits was \$144,990 and the bank balance was \$169,218. At June 30, 2001, \$69,218 of deposits were not insured or collateralized.

4. INTERGOVERNMENTAL RECEIVABLE

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2001 consisted of the Title I grant program in the amount of \$21,343.

5. FIXED ASSETS

A summary of the Academy's fixed assets as of June 30, 2001, follows:

Equipment	\$9,046
Less: Accumulated Depreciation	<u>(1,508)</u>
Net Fixed Assets	<u>\$7,538</u>

6. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2001, the Academy contracted with Employers Mutual Casualty Company for property and general liability insurance.

Professional liability is protected by Employers Mutual Casualty Company with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate and no deductible.

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical, Dental, Vision, Prescription, and Life Benefits

The Academy has contracted with private carriers to provide employee medical, dental, vision, prescription, and life insurance to its full time employees who work 40 or more hours per week.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement System Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Authority to establish and amend benefits is provided by chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information- for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3684 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute 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; for the year ended June 30, 2001, 4.2 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 statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the year ended June 30, 2001 was \$1,954; of which 88 percent has been contributed for fiscal year 2001.

B. State Teachers Retirement System

The Academy 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 43215-3771.

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salary. The Academy was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Academy's required contribution for pension obligations to STRS for the year ended June 30, 2001 was \$7,211; of which 100 percent has been contributed for fiscal year 2001.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

8. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS 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, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$3,416 during the 2001 fiscal year.

The balance in the Health Care Reserve Fund was \$3.419 billion on June 30, 2000, (the latest information available). For year ended June 30, 2000, net health care costs paid by STRS Ohio were \$283,237,000. There were 99,011 eligible benefit recipients.

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

After allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year ended June 30, 2001, the allocation rate is 9.8 percent, an increase of 1.3 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, prorated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge was \$4,559 for fiscal year 2001.

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 annual health care expenses. Expenses for health care at June 30, 2000 (latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, the Retirement System's net assets available for payment of health care benefits was \$252.3 million. The number of participants currently receiving health care benefits is approximately 50,000.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

9. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2001.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. The Academy does not anticipate any adjustments to state funding for fiscal year 2001 as a result of such a review.

C. Litigation

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 Academy is not presently determinable.

10. OPERATING LEASES

The Academy has entered into a lease for the period June 1, 2000 through May 31, 2005, to lease space to house the Academy. Payments made for fiscal year 2001 totaled \$26,000. The lease is renewable on a month to month basis upon expiration of the lease period.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2001.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2002	\$ 26,000
2003	26,000
2004	26,000
2005	<u>23,833</u>
Total	<u>\$101,833</u>

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

11. AGREEMENT WITH CHARTER SCHOOL ADMINISTRATION SERVICES, INC.

The Academy entered into a five-year contract, effective July 1, 2000 through June 30, 2005, with Charter School Administration Services, Inc. for educational management services. In exchange for its services, CSAS receives a management fee equal to 12% of all revenue sources and is reimbursed for all costs incurred on behalf of the Academy. In addition, the Academy pays CSAS an annual incentive fee in an amount equal to fifty (50%) percent of the excess of revenue over expenditures. Terms of the contract require CSAS to provide the following:

- a. Providing the support necessary for the provision of educational services to students, and the management, operation, and maintenance of the Academy.
- b. Implementation and administration of the Educational Program, including the selection and acquisition of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs.
- c. All personnel functions, including professional development for the School Administrator, all instructional personnel, and support staff.
- d. Control, maintenance, and operation of the school building, and the installation of technology integral to the school design.
- e. All aspects of the business administration of the Academy.
- f. Transportation and food service for the Academy.
- g. A projected annual budget prior to each school year.
- h. Detailed statements of all revenues received, from whatever source, and detailed statements of all direct expenditures for services rendered to or on behalf of the Academy, whether incurred on-site or off-site, upon request.
- i. Provide support for annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy.
- j. Reports on Academy operations, finances, and students' performance, upon request, but not less frequently than four times per year.
- k. Any other function necessary or expedient for the administration of the Academy.

For the year ended June 30, 2001, the Academy incurred management company fees of \$57,771 of which \$18,222 remained unpaid.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

12. 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 December 28, 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.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

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

13. RELATED PARTIES

The President of Charter School Administration Services, Inc. is a member of the Academy of Dayton's Board of Trustees, as well as, a Trustee of the Academy of Business and Technology of Toledo, Ohio, a community school also sponsored by the Ohio Department of Education. His wife is also an Academy of Dayton Trustee. Members of the Board of Trustees are not compensated.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

14. CONSORTIUM AGREEMENT

On August 23, 2000, the Board of Trustees approved joining a consortium with seventeen other charter schools and public school academies, each of which is managed by Charter School Administration Services, Inc. under management agreements comparable to the management agreement the Academy and CSAS. The members of the consortium including the Academy are:

Academy	State of Operation
Academy of Austin	Texas
Academy of Beaumont	Texas
Academy of Dallas	Texas
Academy of Detroit West	Michigan
Academy of Flint	Michigan
Academy of Houston	Texas
Academy of Inkster	Michigan
Academy of Kansas City	Missouri
Academy of Lathrup Village	Michigan
Academy of Michigan	Michigan
Academy of Oak Park	Michigan
Academy of Southfield	Michigan
Academy of Business and Technology	Ohio
Academy of Westland	Michigan
Academy of Arizona	Arizona
Bexar County Academy	Texas
Cherry Hill School of Performing Arts	Michigan

The Management Agreement between the Academy and CSAS provides for the allocation of indirect costs incurred by CSAS on behalf of the Academy and the other members of the consortium. Based upon the count of students at the Academy and the other members of the consortium as of September 2000, and the experiences of CSAS in both incurring costs for the consortium members and allocation of such costs to consortium members, the Academy and CSAS has agreed upon an equitable method of such allocation. Based upon the student count, the Academy shall pay CSAS, for all indirect reimbursable expenses incurred by CSAS on behalf of the Academy and other members of the consortium, for the 2000-2001 school year, in an amount equal to \$67 per month per student enrolled at the Academy, \$56,481 for the school year, of which \$12,596 remained unpaid at year end.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

15. PURCHASED SERVICES

During the year ended June 30, 2001, purchased service expenses for services rendered by various vendors were as follows:

Advertising	\$ 30,261
Consulting Fees	4,140
Insurance	3,358
Maintenance and Repairs	22,499
Management Company Fees	57,771
Indirect Costs to Consortium	56,481
Food Service	23,698
Rent	26,000
Telephone	5,535
Travel and Entertainment	983
Utilities	<u>9,832</u>
Total Purchased Services	<u>\$240,558</u>

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

Academy of Dayton Community School
Montgomery County
4380 Salem Avenue
Dayton, Ohio 45416

To the Board of Trustees:

We have audited the financial statements of Academy of Dayton Community School, Montgomery County, (the School), as of and for the year ended June 30, 2001, and have issued our report thereon dated December 28, 2001. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 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 School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-10357-001 and 2001-10357-002.

**Internal Control Over Financial Reporting
(Continued)**

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 conditions described are material weaknesses. We also noted 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 December 28, 2001.

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

Jim Petro
Auditor of State

December 28, 2001

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

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

Finding Number 2001-10357-001

Purchase Orders

The Academy of Dayton's Purchasing Policy Section III (A) (3) states that the Board will have a fully operative purchase order system as a means of control. The use of purchase orders is an effective means for management to prevent undesirable or unnecessary purchases by Academy staff and make sure that expenditure commitments are properly funded. Nine percent of the disbursement transactions selected for examination for the year ended June 30, 2001, did not utilize a purchase order. The failure to follow the purchasing policy could result in the failure to prevent the improper expenditure of Academy funds or in Academy expenditures exceeding the available resources.

The Academy should enforce Section III(A)(3) of their purchasing policy instituting a fully operational purchase order system. Adherence to this policy will help establish proper accountability over monies disbursed by the School.

Finding Number 2001-10357-002

Fixed Assets

Review of the Academy's fixed assets indicated certain control weaknesses for fixed assets:

- The Academy has not developed a fixed asset accounting system which maintains a total fixed asset listing, by location, with tag identification numbers and other supplemental information.
- The Academy has not developed and implemented procedures to perform periodic inventory of assets.
- The Board of Trustees has not developed a fixed asset policy wherein it sets forth the capitalization criteria for the Academy.

The failure to employ adequate controls over the Academy's fixed assets could result in misappropriation of assets and misstatements of the amounts reported as assets and depreciation on the financial statements.

To maintain adequate safeguards over fixed assets, and reduce the risk that the Academy's assets and depreciation will be misstated, we recommend:

- The Board of Trustees develop and implement a fixed asset policy establishing capitalization criteria. Also, procedures stated in exhibit 2 of the Academy's approved contract with Ohio State Board of Education which include tagging assets, creating a computerized physical asset listing indicating purchase date, purchase price, quantity and use of disposal forms should be enforced.
- The Academy develop and implement procedures for performing periodic (annual) physical inventories which is also referenced in exhibit 2 of the Academy's approved contract with Ohio State Board of Education. The physical inventory can be performed by submitting a list of all fixed assets recorded for each location and having individuals responsible of that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer in use should be deleted and any assets not included on the listing should be added. Any significant differences should be investigated and documented accordingly.



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ACADEMY OF DAYTON 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
FEBRUARY 14, 2002**