



**Auditor of State  
Betty Montgomery**



**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

Academy of Dayton Community School  
Montgomery County  
4095 Little Richmond Road  
Trotwood, Ohio 45427

To the Board of Trustees:

We have audited the accompanying balance sheet of the Academy of Dayton Community School, Montgomery County, (the Academy), as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Academy of Dayton Community School, Montgomery County, as of June 30, 2002, 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.

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As shown in the financial statements, the Academy has a working capital deficiency of \$357,222 as of June 30, 2002, which is primarily due to accounts payable of which 23 percent was over 90 days. Accordingly, there is substantial doubt about the Academy's to continue as a going concern. Management's plans in regards to these matters are discussed in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2003, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 23, 2003

**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2002**

**ASSETS**

**Current Assets**

Cash	\$11,343
Intergovernmental Receivable	45,331
Accounts Receivable	3,021
Prepaid Expenses	<u>42,437</u>

Total Current Assets 102,132

**Noncurrent Assets**

Leasehold Improvements	333,770
Furniture and Equipment	<u>24,661</u>

Total Noncurrent Assets 358,431

Total Assets \$460,563

**LIABILITIES AND FUND EQUITY**

**Current Liabilities**

Accounts Payable	\$434,243
Intergovernmental Payable	5,801
Accrued Wages and Benefits	<u>19,310</u>

Total Liabilities \$459,354

**Fund Equity**

Retained Earnings	<u>1,209</u>
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Total Liabilities and Fund Equity \$460,563

*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  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>Operating Revenues</b>	
Foundation Payments	\$403,151
Food Sales	139
Other	<u>562</u>
Total Operating Revenue	<u>403,852</u>
<b>Operating Expenses</b>	
Salaries	179,796
Fringe Benefits	42,375
Payroll Taxes	9,641
Purchased Services	282,642
Materials and Supplies	64,925
Depreciation	1,985
State Foundation Refund	<u>1,578</u>
Total Operating Expenses	<u>582,942</u>
<b>Operating Loss</b>	(179,090)
<b>Non-Operating Revenues</b>	
Grants - State	2,587
Grants - Federal	<u>201,313</u>
Total Non-Operating Revenues	<u>203,900</u>
<b>Net Income</b>	24,810
Accumulated Deficit, Beginning of Year	<u>(23,601)</u>
<b>Retained Earnings, End of the Year</b>	<u><u>\$1,209</u></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 THE YEAR ENDED JUNE 30, 2002**

**INCREASE (DECREASE) IN CASH**

**Cash Flows From Operating Activities**

Cash Received from State Foundation	\$403,151
Cash Received from Food Program	139
Cash Received from Other Sources	562
Cash Payments to Suppliers for Goods and Services	(108,696)
Cash Payments to Employees for Services	(177,305)
Cash Payments to Employees for Benefits	<u>(75,705)</u>

Net Cash Provided By Operating Activities 42,146

**Cash Flows from Noncapital Financing Activities**

Grants Received - State	2,587
Grants Received - Federal	<u>174,498</u>

Net Cash Provided by Noncapital Financing Activities 177,085

**Cash Flows from Capital and Related Financing Activities**

Payments for Capital Acquisitions	<u>(352,878)</u>
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Net Cash Used by Capital and Related Financing Activities (352,878)

Net Increase in Cash (133,647)

Cash, Beginning of Year 144,990

**Cash, End of Year** \$11,343

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

Operating Loss (\$179,090)

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

Depreciation	1,985
<b>Changes in Assets and Liabilities</b>	
Decrease in Accounts Receivable	2,666
(Increase) in Prepaid Items	(25,068)
Decrease in Security Deposit	2,167
Increase in Accounts Payable	232,390
Increase in Intergovernmental Payable	2,461
Increase in Accrued Wages and Benefits Payable	<u>4,635</u>

Total Adjustments 221,236

Net Cash Provided By Operating Activities \$42,146

*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, 2002**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

The Academy of Dayton (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. 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. The 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 contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing on 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 with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility staffed by a director, principal, three full-time certified teaching personnel and two non-certified support personnel who provide 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 Notes 9 and 14)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 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.

**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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**

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. In accordance with GASB Statement No. 33, after fiscal year 2000, capital contributions from other governments and private sources are recorded as non-operating revenues and reported as retained earnings. 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 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 5-year forecast, which is updated on an annual basis.

**D. Cash**

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. (See Note 14)

**E. Prepaid Expenses**

The Academy's State Teacher's Retirement System (STRS) contributions for 2001 and 2002, through foundation payments, exceeded the STRS liability, which resulted in a prepaid expense of \$41,520.

**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 date received. 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 not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of five years. Leasehold improvements are depreciated over the life lease.

**G. 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 they are earned, essentially the same as the fiscal year.

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 and the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specific 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 \$150,000 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2002 school year totaled \$607,051.

**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, 2002, including:

**Accrued Wages and Benefits Payable** - salary payments made after year-end that were for services rendered in fiscal year 2002. Certain teaching personnel are paid year around, however, payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2002 for all salary payments made to teaching personnel during the summer of 2002.

**Intergovernmental Payable** – payment for the employer's share of the retirement contribution (\$883) unexpended federal program receipts which have not been returned to the Ohio Department of Education (\$3,340), and amounts due to the State for overpayments of basic foundation (\$1,578).

**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**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, 2002, the carrying amount of the Academy's deposits was \$11,343 and the bank balance was \$33,756. At June 30, 2002, 100% of the balance was insured by the Federal Deposit Insurance Corporation (FDIC).

**4. INTERGOVERNMENTAL RECEIVABLES**

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, 2002 consisted of the federal Title I and Classroom size reduction grant programs in the amount of \$40,635 and \$4,696, respectively.

**5. FIXED ASSETS**

A summary of the Academy's fixed assets at June 30, 2002, follows:

Leasehold Improvements	\$333,770
Furniture and Equipment	<u>28,154</u>
	361,924
Less: Accumulated Depreciation	<u>(3,493)</u>
Net Fixed Assets	<u>\$358,431</u>

**6. RISK MANAGEMENT**

**A. 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 the year ended June 30, 2002, 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. Worker's 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 benefits 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, 2002  
(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. Benefits are established 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 at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent 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 fiscal years ended June 30, 2002 and 2001 were \$3,417 and \$1,954; of which 74 percent has been contributed for fiscal year 2002 and 100 percent for fiscal year 2001.

**B. State Teachers Retirement System**

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), which is 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 fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. 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 recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002 and 2001 were \$12,180 and \$7,211; 100 percent has been contributed for both fiscal years 2002 and 2001.

**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare 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 (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. Most 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, 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, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001 (the latest information available). For the Academy, this amount equaled \$ 5,769 during the 2002 fiscal year.

For the year ended June 30, 2001, net health care costs paid by STRS Ohio were \$300,772,000. There were 102,132 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. 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 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, 2002, the allocation rate is 8.54 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 2002, the minimum pay has been established at \$12,400. For the Academy, the amount to fund health care benefits, including the surcharge, was \$5,344 for fiscal year 2002.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits of \$315.7 million. The number of benefit recipients 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, 2002  
(Continued)**

**9. AGREEMENTS 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. (CSAS) 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 Academy 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 student 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, 2002, the Academy incurred management company fees of \$66,498 of which \$47,324 remains unpaid and is included in the amounts shown for accounts payable.

**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**10. 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 agreement 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 claim will not have a material adverse effect on the overall financial position of the Academy at June 30, 2002.

**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 the review for fiscal 2002 indicated an immaterial overpayment to the Academy of \$1,578, which will be an adjustment to state funding for fiscal 2003. This amount has been recorded as a payable in the accompanying financial statements as of June 30, 2002.

**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 no presently determinable.

**11. 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.

**12. OPERATING LEASE**

The Academy has entered into a lease for the period June 1, 2000 through May 31, 2005, to lease facilities to house the Academy. Payments made for fiscal 2002 totaled \$30,667. The lease was terminated at June 30, 2002.

The Academy entered into a lease for the period August 1, 2002, through July 31, 2005, with CSAS Real Estate, Inc. for a larger facility. The lease calls for monthly payments of \$11,280 per month for the period of the lease.

**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**13. RELATED PARTIES**

The President of Charter School Administrative Services, Inc. is a member of the Academy of Dayton's Board of Trustees. His wife is also an Academy of Dayton Trustee. Members of the Board of Trustees are not compensated.

Also, during fiscal year 2002, the Charter School Administration Services, Inc. advanced the Academy \$ 210,000 for purposes of cash flow. This loan not supported by a formal agreement and is included in the Academy's accounts payable as of June 30, 2002.

**14. CONSORTIUM AGREEMENT**

On August 23, 2000, the Board of Trustees approved joining a consortium with nineteen other charter schools and public school academies, each of which is managed by Charter School Administration Services, Inc. (CSAS) under management agreements comparable to the management agreement between the Academy and CSAS (See Note 9). The Members of the consortium including the Academy are:

<b>Academy</b>	<b>State of Operation</b>
Academy of Business and Technology	Ohio
Academy of Cleveland	Ohio
Academy of Kansas City Charter School	Missouri
Academy of Arizona	Arizona
Beaumont Charter Academy	Texas
Academy of Dallas	Texas
Bexar County Academy	Texas
Academy of Houston	Texas
Academy of Lithonia	Georgia
Academy of Fulton County	Georgia
Academy of Detroit West	Michigan
Academy of Oak Park	Michigan
Academy of Michigan	Michigan
Academy of Southfield	Michigan
Academy of Lathrup Village	Michigan
Academy of Flint	Michigan
Academy of Inkster	Michigan
Academy of Westland	Michigan
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 2001-2002 school year, in an amount equal to \$ 67 per month per student enrolled at the Academy, \$56,280 for the 2002 school year, of which \$21,796 remained unpaid at year end and is included as accounts payable.

**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**15. OTHER PURCHASED SERVICES**

During the year ended June 30, 2002, other purchased service expenses for services rendered by various vendors were as follows:

Audit fees	\$11,797
Professional and technical services	27,280
Insurance	12,352
Maintenance and repairs	15,507
Indirect costs to consortium	56,280
Food Service	30,832
Rent	30,667
Telephone	13,434
Travel and entertainment	2,304
Utilities	15,177
Other	514
	<u>\$282,642</u>

**16. TAX EXEMPT STATUS**

The Academy has not filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code, nor have they filed tax returns for fiscal 2002 or 2001. The Academy has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.

**17. MANAGEMENT'S PLANS REGARDING CONTINUED EXISTENCE**

As shown in the accompanying financial statements, the Academy had a working capital deficiency of \$357,222 as of June 30, 2002, which is primarily due to accounts payable of \$434,243 of which \$101,984 was over 90 days old.

The working capital deficiency of \$357,222 is almost identical to the payments made for capital acquisitions in fiscal 2002 of \$352,878. The Academy's long term investment in its new facility did cause a short term working capital deficiency. The improvements in the Academy's facility, and the expanded size of its facility, should result in an increase in the Academy's enrollment over the next several years. The significant investment reflects the Academy's commitment to continue the operation of its community school, as a going concern.

The Academy's long range plans are to seek increased enrollment for the new facility during fiscal 2003 and for the next several fiscal years thereafter. Enrollment has been increased to 143 students as of September 2002.



**Auditor of State  
Betty Montgomery**

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

Academy of Dayton Community School  
Montgomery County  
4095 Little Richmond Road  
Trotwood, Ohio 45427

To the Board of Trustees:

We have audited the financial statements of Academy of Dayton Community School, Montgomery County, (the Academy), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 23, 2003, in which we noted the Academy had a working capital deficiency and there is substantial doubt about the Academy's ability to continue as a going concern. 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 Academy'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*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Academy in a separate letter dated January 23, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to 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 2002-10357-001 through 2002-10357-004.

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**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 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 all 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 Academy in a separate letter dated January 23, 2003.

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



**Betty Montgomery**  
Auditor of State

January 23, 2003

**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2002-10357-001**

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 the Academy staff and make sure that expenditure commitments are properly funded. Eight percent of the disbursement transactions selected for examination for the year ended June 30, 2002, did not utilize a purchase order. The failure to follow the purchasing policy could result in the failure to detect the improper expenditure of Academy funds or in Academy's 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 Academy.

**FINDING NUMBER 2002-10357-002**

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

The failure to employ adequate controls over the Academy's fixed assets could result in the failure to detect the misappropriation of assets or 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 should develop and adopt a fixed asset policy establishing capitalization criteria. Also, the 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 should 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 for 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.

**FINDING NUMBER 2002-10357-003**

The Academy of Dayton's Purchasing Policy, Section III (B)(6), requires that no purchase shall be made for goods, construction, or non-teaching services costing \$16,127 or more unless competitive bids for those goods or services are obtained and the purchase is approved by the Board. The use of competitive bidding procedures is an effective means for management to monitor major purchases by the Academy and make sure that those commitments are properly funded. The Academy did not utilize competitive bidding procedures for five purchases that exceeded its stated threshold during 2002. The failure to follow the purchasing policy could result in the failure to detect the improper expenditure of Academy funds or in Academy expenditures exceeding the available resources.

The Academy should enforce Section III (B)(6) of its purchasing policy instituting competitive bidding procedures. Adherence to this policy will help maintain proper accountability over monies disbursed by the Academy.

**FINDING NUMBER 2002-10357-004**

The Academy has not applied for tax exempt status with the Internal Revenue Service. Since the Academy has not filed for such status, the net income consequently is subject to taxation by the Internal Revenue Service. Further the Academy has not filed any tax returns. The accompanying financial statements do not include amounts associated with an income tax liability or associated fines or penalties.

We recommend the Academy establish provisions for federal, local and accrued taxes. We also recommend the Academy should consult with qualified tax counsel to determine necessary tax filings with the Internal Revenue Service, pay any outstanding taxes due and negotiate a settlement concerning any fees and/or penalties which may be assessed.



**ACADEMY OF DAYTON COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR YEAR ENDED JUNE 30, 2002**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2001-10357-001	Failure to issue purchase orders for payments to vendors	No	Finding will be repeated. However, the rate of failure has decreased from the prior audit period.
2001-10357-002	Failure to develop fixed asset policy.	No	Finding will be repeated.





**Auditor of State  
Betty Montgomery**

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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  
MARCH 13, 2003**