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AUDITOR OF STATE

STATE OF OHIO



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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Dayton Academy School
Montgomery County
4401 Dayton-Liberty Road
Dayton, Ohio 45418

To the Governing Board:

We have audited the accompanying balance sheet of the Dayton Academy School, Montgomery County, (the School) as of June 30, 2002, and the related Settlement 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 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 Academy School, Montgomery County, as of June 30, 2002, and the results of its operations and the 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 January 6, 2003, 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.

The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

January 6, 2003

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DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

BALANCE SHEET
As of JUNE 30, 2002

ASSETS

Current Assets

| | |
|--|----------------|
| Cash in Pooled Cash and Cash Equivalents | \$ 1,188,187 |
| State Foundation Receivable | 129,376 |
| Intergovernmental Receivable | <u>432,982</u> |

| | |
|---------------------|-------------------------|
| Total Assets | <u><u>1,750,545</u></u> |
|---------------------|-------------------------|

LIABILITIES AND EQUITY

Liabilities

Current Liabilities

| | |
|----------------------------|---------------|
| Accounts Payable | 844 |
| Accrued Wages and Benefits | 36,798 |
| Intergovernmental Payable | <u>61,098</u> |

| | |
|----------------------------------|--------|
| Total Current Liabilities | 98,740 |
|----------------------------------|--------|

Long Term Liabilities

| | |
|---------------------|------------------|
| Accrued Edison Fees | <u>1,402,239</u> |
|---------------------|------------------|

| | |
|-------------------|------------------|
| Total Liabilities | <u>1,500,979</u> |
|-------------------|------------------|

Equity

| | |
|-------------------|----------------|
| Retained Earnings | <u>249,566</u> |
|-------------------|----------------|

| | |
|-------------------------------------|----------------------------|
| Total Liabilities and Equity | <u><u>\$ 1,750,545</u></u> |
|-------------------------------------|----------------------------|

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

| | |
|--|-------------------------|
| Operating Revenues | |
| Sales | \$81,602 |
| State Foundation Payments | 4,729,920 |
| Other Operating Revenues | 2,451 |
| Disadvantaged Pupil Impact Aid | <u>716,888</u> |
| Total Operating Revenues | <u>5,530,861</u> |
| Operating Expenses | |
| Salaries | 33,000 |
| Fringe Benefits | 343,233 |
| Purchased Services | 6,155,737 |
| Rent | 396,885 |
| Materials and Supplies | 50,593 |
| Other Operating Expenses | <u>77,087</u> |
| Total Operating Expenses | <u>7,056,535</u> |
| Operating Loss | <u>(1,525,674)</u> |
| Non-Operating Revenues | |
| Federal and State Grants | 925,148 |
| Donations | 365,000 |
| Interest | <u>38,553</u> |
| Total Non-Operating Revenues | <u>1,328,701</u> |
| Net Loss | (196,973) |
| Retained Earnings at Beginning of Year (Restated, See note 11) | <u>446,539</u> |
| Retained Earnings at End of Year | <u><u>\$249,566</u></u> |

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

| | |
|---|-----------------|
| Cash Received from Sales | \$81,602 |
| Cash Received from State of Ohio | 5,317,432 |
| Cash Payments to Suppliers for Goods and Services | (5,891,416) |
| Cash Payments for Employee Benefits | (278,337) |
| Cash Received from Other Operating Activity | 15,990 |
| Cash Payments Other Operating Expenses | <u>(77,087)</u> |

Net Cash Used for Operating Activities (831,816)

Cash Flows from Noncapital Financing Activities

| | |
|------------------------------------|----------------|
| Federal, and State Grants Received | <u>821,820</u> |
|------------------------------------|----------------|

Cash Flows from Noncapital Investing Activities

| | |
|---------------------|----------------|
| Interest Income | 38,553 |
| Sale of Investments | <u>365,000</u> |

Net Cash Provided for Noncapital Financing Activities 403,553

Net Increase in Cash and Cash Equivalents 393,557

Cash and Cash Equivalents at Beginning of Year 794,630

Cash and Cash Equivalents at End of Year 1,188,187

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

Operating Loss (1,525,674)

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

Change in Assets and Liabilities

| | |
|---|---------------|
| Increase in State Foundation Receivable | (129,376) |
| Decrease in Intergovernmental Payable | (186,874) |
| Decrease in Accounts Payable | (32,675) |
| Increase in Accrued Edison Fees | 1,005,985 |
| Increase in Accrued Wages and Benefits | <u>36,798</u> |

Net Cash Used for Operating Activities (\$831,816)

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

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**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Alliance Community Schools, Inc. "Doing Business As" Dayton Academy School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. Specifically, the School's purpose is to be a charter school serving children from kindergarten through grade five during its first year and adding a grade over the next three years, extending through grade eight by the 2003 school year. The School, which is part of the state's education program, is to operate or arrange for the operation of schools in the Dayton, Ohio area. 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 qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status.

The creation of the School was initially proposed to the Ohio State Board of Education, the sponsor, by the Board of Trustees of Alliance Community Schools, Inc. (the Board) on November 9, 1998. The Ohio State Board of Education approved the proposal and entered into a contract with the Board, which provided for the commencement of School operations beginning the fiscal year 2000 academic year and shall terminate upon conclusion of the fiscal year 2004 school year. The contract is renewable at the option of the sponsor.

The School operates under a seven-member Board of Trustees. This Board exercises its authority by appointing a separate five-member Board of Governance for the School. The Board of Trustees 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 Board of Governance controls the School's one instructional facility staffed by 42 teaching personnel who provide services to approximately 957 students. Furthermore, Dayton Academy School and Dayton View Academy School share the same Board.

The primary government of the School consists of one fund, several departments, and the boards and committees that are not legally separate from the School. This includes general operations and student related activities of the School.

Alliance Community Schools has several divisions. These divisions operate under the names of Dayton Academy and Dayton View Academy. The School also leases its facilities from a separately Incorporated Ohio Not-for-Profit entity Alliance Facilities Management (AFM). (See note 8A.) Alliance Community Schools Inc. has contracted with Edison Schools, Inc. to act as a management company for both of the schools. (See Note 12) Although no transactions occurred between Dayton View Academy and Dayton Academy, both schools share the same Board of Governance.

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 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:

**DAYTON ACADEMY 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 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 net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present 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. Under this basis, 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 Alliance Community Schools, Inc. and its sponsor, Ohio State Board of Education, requires a detailed school budget for each year of the School's contract: however, the budget is not required to follow the provisions of Ohio Rev. Code Section 5705.

D. Cash and Cash Equivalents

The School's fiscal officer accounts for all monies received by the School. To improve cash management, all cash received from the State of Ohio is electronically transferred into the main checking account. This checking account is set up as a sweep account. Individual fund integrity is maintained through School records and the accounting system.

E. Estimates

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenue

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

The School also participates in various federal and state programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2002, of which they were still owed for at June 30, 2002 include: Title I, Title II, Title IV, Title VI, and, Title VI-R. Revenue to be received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts owed to the School under the above named programs for the 2002 school year totaled \$562,358 at June 30, 2002, and is reflected on the accompanying financial statements as an intergovernmental and foundation receivable.

G. Compensated Absences

The School's contract with Edison Schools, Inc. states Edison will process all payroll and employees will follow Edison's personnel policies. This policy also states that any unused sick leave does not carryover to successive years, and there is no payment of sick leave upon separation. In addition, the abovementioned policy states all vacation should be taken within the year it is earned. Therefore, neither sick nor vacation leave is accrued as a liability.

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 year-end the carrying amount of the School's deposits was \$28,154 and the bank balance was \$550,948. Of the bank balance:

- a. \$118,154 was covered by federal deposit insurance.
- b. \$432,794 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School held to a successful claim by the FDIC.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

Investments: The School's investments are required to be categorized to give an indication of the level of risk assumed by the School at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School or its agent in the School's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School's name.

| | Category of Risk 3 | Fair Value |
|--------------------------------|-------------------------------|-----------------------|
| Overnight Repurchase Agreement | \$ 1,160,033 | \$1,160,033 |

The classification of cash in pooled cash, cash equivalents on the balance sheet is based on criteria set forth in GASB Statement No. 9.

A reconciliation between the classifications of cash in pooled cash, cash equivalents, on the balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | Pooled Cash and Cash Equivalents | Investments |
|---|---|--------------------|
| GASB Statement No. 9 Investments of the Cash Management Pool: | \$1,188,187 | |
| Overnight Repurchase Agreement | (1,160,033) | \$1,160,033 |
| GASB Statement No. 3 | \$ 28,154 | \$1,160,033 |

4. RECEIVABLES

Receivables at June 30, 2002 consisted of school foundation receivables and intergovernmental (federal grant) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of receivables is as follows:

| | |
|---|------------|
| <u>School Foundation Receivable</u> | \$ 129,376 |
| <u>Intergovernmental Receivable:</u> | |
| State Grants | \$ 1,250 |
| Title I | 351,732 |
| Title II | 9,010 |
| Title IV | 7,718 |
| Title VI | 6,144 |
| Title VI-R | 57,128 |
| Total Intergovernmental Receivable | \$ 432,982 |

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

5. 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; errors and omissions; injuries to employees; and natural disasters. During the year ended 2002, the School's management company, Edison Schools, Inc., carried comprehensive insurance on all of the schools they manage. This policy cannot be broken out on a per school basis, and therefore is presented on a cumulative basis. Edison Schools, Inc. contracted with Willis of Tennessee, Inc. for employee dishonesty (crime and fiduciary) bonds, business personal property, equipment hardware and software, general liability, and excess liability insurance.

Employee dishonesty crime coverage carries a \$10,000 deductible and has a \$1,000,000 limit. Employee dishonesty fiduciary liability also has a limit of \$1,000,000, with no deductible. Computer equipment carries a \$50,000 deductible and has a \$65,000,000 limit. Business personal property has a limit of \$40,000,000, with a \$50,000 deductible. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate. In addition, the general liability provides \$100,000 for fire damage for any one fire, and \$5,000 for medical expenses for any one person. There have been no significant reductions in insurance coverage from last year. Settled claims have not exceeded insurance coverage for the past years.

B. Employee Medical, Dental and Vision Benefits

As part of the management agreement with Edison Schools, Inc. (See note 12B.), insurance benefits for School employees are paid by Edison.

6. 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

7. CONTINGENCIES

A. Grants

The School 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 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, 2002.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

7. CONTINGENCIES

B. Pending 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 School is not presently determinable.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review resulted in the discovery of an underpayment to the School in the amount of \$129,376. This amount is reflected as a State foundation receivable and is included in State foundation revenue.

8. RELATED PARTY TRANSACTIONS

A. Alliance Facilities Management (AFM)

The School leases its facilities and land from Alliance Facilities Management (AFM), which is also created under Alliance Community Schools, Inc. The lease expense for the year ended June 30, 2002 was \$310,622 for the facilities and \$86,263 for the land. (See note 9.)

9. LEASES

The School subleases a building and 4.441 acres together with the non-exclusive right to use and occupy some common areas through a related nonprofit organization, Alliance Facilities Management (AFM). (See note 8A.) AFM leases the land from the Young Men's Christian Association (YMCA). The School agreed to pay AFM, as rent for the land and the common areas, an amount equal to the land lease due by AFM owed to the YMCA. Rent paid for the land for the year ended June 30, 2002 was \$86,263.

The above mentioned lease also states the School must pay AFM for rent of the building, an amount equal to the debt service relating to any financing obtained; plus loan closing cost, on going loan administration cost associated with any financing secured by the premises, including but not limited to, cost associated with satisfying the financial reporting and periodic appraisal requirements; plus out of pocket expenses incurred by AFM; plus \$5,000 per year. The School, with written notification, has an option to renew the lease for four additional terms of five years. Lease paid for the building for the year ended June 30, 2002 was \$310,622.

The estimated future minimum lease payments as of June 30, 2002, is as follows:

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

9. LEASES (Continued)

| <u>Year Ending June 30,</u> | <u>Land Minimum Lease Payments</u> | <u>Building Minimum Lease Payments</u> | <u>Total Minimum Lease Payments</u> |
|---------------------------------|--|--|---|
| 2003 | \$ 84,000 | \$ 435,888 | \$ 519,888 |
| 2004 | 86,520 | 435,888 | 522,408 |
| 2005 | <u>89,040</u> | <u>435,888</u> | <u>524,928</u> |
| | <u>\$ 259,560</u> | <u>\$ 1,307,664</u> | <u>\$ 1,567,224</u> |

10. PURCHASED SERVICES

For the period July 1, 2001 through June 30, 2002 purchased services expenses were payments for services rendered by various vendors as follows:

| | |
|--|--------------------|
| Management Company Fees | \$5,813,327 |
| Alliance Facility Management Fees | 77,250 |
| Food Service (On-Behalf of Expenditures) | <u>265,160</u> |
| Total | <u>\$6,155,737</u> |

11. RESTATEMENT OF RETAINED EARNINGS

Restatements were necessary for cash and cash equivalents and note payable. Cash was restated due to bank accounts not reported in last year's report. Notes payable was restated due to forgiveness of the note. Beginning retained earnings of \$(31,846) was restated by \$17,617 for cash and \$460,768 for the note. The restated retained earnings is now \$446,539.

12. AGREEMENT WITH EDISON SCHOOLS, INC.

On May 23, 2000, the School contracted with Edison Schools Inc, to provide educational programs that offer educational excellence and a laboratory for educational innovation based on Edison's unique school design, comprehensive educational programs, and management principles. The term of the contract is retroactive to August 1, 1999 and ending on June 30, 2004. The contract shall be renewed for an additional five-year term, up to a total of two additional five-year terms and cannot extend beyond the term of the School's contract with the Ohio State Board of Education. Under the contract Edison is responsible and accountable to Alliance Community School's Inc. Board of Trustees for the administration, operation, and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. Significant provisions of the contract are as follows:

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit monthly to Edison all qualified gross revenue defined in the contract as "Appendix F" except for \$77,250 and rent and common area rental.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

12. AGREEMENT WITH EDISON SCHOOLS, INC. (Continued)

The following is a summary of current payment activity to Edison:

| | |
|-------------------------------------|---------------------|
| Amount due current fiscal year | \$ 7,324,284 |
| Amount remitted current fiscal year | <u>5,922,045</u> |
| Accrued Edison Fees | <u>\$ 1,402,239</u> |

2. The School's Financial Responsibilities

The School is responsible for initial start up cost and rent and common area rental. The School is also responsible to pay for fees of legal services not related to the operation of the School.

3. Edison Financial Responsibilities

Edison is responsible for costs associated with operating the School. Such costs shall include, but shall not be limited to, salaries and benefits, including payroll taxes; pension and retirement; the purchase of curriculum materials, textbooks, computers and other equipment, software, and supplies; insurance premiums, utilities, janitorial services, legal and financial management services related to the operation of the School and repairs and maintenance of the School's facilities, except for capital repair. Edison shall equip the School's facilities with desks and other furniture and furnishings and these items are considered property of Edison.

Edison must secure and maintain commercial general liability coverage for bodily injury and property damage; Educator Liability coverage; Automobile Liability insurance, for personal injury and property damage; Property Insurance for facilities; and Workers Compensation insurance for employees. (See note 5A.)

4. Budget

Edison shall provide the School with an annual budget, in reasonable detail, by the 30th of June of each year.

B. Personnel

All personnel working at the School are employees of the Alliance Community Schools, Inc. except the Business Service Manger, who is an employee of Edison. Edison shall have the responsibility to select, assign, evaluate, and discharge School employees. Compensation will be set according to Edison's compensation policies for Teachers, Principals, and Non-Instructional Staff.

In addition, any accrued payroll, the related benefits, and pension obligation for the School's employees are included in the Accrued Edison Fees, as these amounts are included in the amount of revenues remitted to Edison throughout the school year.

C. Agreement Termination

1. Termination by the School

The School may terminate the Contract in the event Edison materially breaches the Contract and Edison fails to remedy such breach within 60 days of its receipt of written notice of such breach from the School.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

12. AGREEMENT WITH EDISON SCHOOLS, INC. (Continued)

2. Termination by Edison

Edison may terminate the Contract in the event the School materially breaches the Contract and the School fails to remedy such breach within 60 days of its receipt of written notice of such breach from Edison.

13. FOOD SERVICE AGREEMENT

Dayton Academy (the School) contracted with Dayton City School District (the District) to facilitate their food service operations. The District's food service employees provide breakfast, and lunch to children at Dayton Academy. The District sets the food prices, processes all free and reduced meal applications, and handles all food service money. The students at Dayton Academy that are eligible for free or reduced meals are therefore included in Dayton City School District's federal grant application. The money the District receives on-behalf-of the School is recorded as federal and state grants on the School's financial statements. (See note 10.)

14. 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, 300 E. Broad St., Suite 100, Columbus, Ohio 43215-3746.

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 School 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 fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For Fiscal Year 2001, 4.2 per cent was 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 fiscal years ended June 30, 2002, 2001, and 2000, were \$28,444, \$17,325 and \$31,776, respectively; 92 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$2,276 representing the unpaid contribution for fiscal year 2002, is recorded as a liability.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

14. 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 fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School 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 School's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$198,319, \$135,066 and \$76,485, respectively; 81 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$37,681 representing the unpaid contribution for fiscal year 2002, is recorded as a liability.

As described in Note 12B the school is responsible for all personnel matters. As also described in Note 12B, the school has an agreement with Edison Schools Inc. that all transactions related to School personnel are handled by Edison throughout the year, funding for which is included in the revenues remitted to Edison. All accrued payroll, related benefits and pension obligations are to be paid by Edison Schools Inc. Management has no reason to believe, as of the date of this report, the School has any additional liability for any of these obligations.

15. POSTEMPLOYMENT 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 fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$93,941 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3,256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

15. POSTEMPLOYMENT BENEFITS (Continued)

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.

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 employer contributions to fund health care benefits were 8.54 percent of covered payroll, an decrease of 1.26 percent from fiscal year 2001. 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 was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$46,613. 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 fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

16. DONATIONS

The School received \$100,000 from the Dayton Foundation for cafeteria construction, and \$265,000 from the Dayton Business Association during the year for operations.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Disbursements |
|--|---|------------------------------------|-------------------------|-------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| <i>(Passed Through Ohio Department of Education)</i> | | | | |
| Nutrition Cluster: | | | | |
| National School Breakfast Program | 05-PU-2001 | 10.553 | \$17,245 | \$17,245 |
| | 05-PU-2002 | | 64,696 | 64,696 |
| Total National School Breakfast Program | | | <u>81,941</u> | <u>81,941</u> |
| National School Lunch Program | LL-P4-2001 | 10.555 | 31,491 | 31,491 |
| | LL-P4-2002 | | 149,117 | 149,117 |
| Total National School Lunch Program | | | <u>180,608</u> | <u>180,608</u> |
| Total U.S. Department of Agriculture - Nutrition Cluster | | | 262,549 | 262,549 |
| U.S. DEPARTMENT OF EDUCATION | | | | |
| <i>(Passed Through Ohio Department of Education)</i> | | | | |
| Grants to Local Educational Agencies (ESEA Title 1) | C1-S1-2000 | 84.010 | 219,516 | 151,128 |
| Innovative Educational Program Strategies | C2-S1-2000 | 84.298 | 3,153 | 3,153 |
| Drug-Free Schools Grant | DR-S1-2000 | 84.186 | 4,383 | 4,383 |
| Eisenhower Professional Development Grant | MS-S1-2000 | 84.281 | 3,563 | 3,563 |
| Class Size Reduction | CR-S1-2000 | 84.340 | 21,774 | 21,774 |
| Charter Start-Up Grant | CH-S1-2002 | 84.282 | 250,000 | - |
| Public Charter Schools Program | CH-S1-2001 | 84.282A | <u>-</u> | <u>34,000</u> |
| Total Department of Education | | | <u>502,389</u> | <u>218,001</u> |
| Total Federal Assistance | | | <u>\$764,938</u> | <u>\$480,550</u> |

The accompanying notes to this schedule are an integral part of this schedule.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

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Betty D. Montgomery**

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

Dayton Academy School
Montgomery County
4401 Dayton-Liberty Road
Dayton, Ohio 45418

To the Governing Board:

We have audited the financial statements of Dayton Academy School, Montgomery County, (the School), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 6, 2003. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 January 6, 2003.

This report is intended for the information and use of the audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

January 6, 2003



STATE OF OHIO
OFFICE OF THE AUDITOR

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**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Dayton Academy School
Montgomery County
4401 Dayton-Liberty Road
Dayton, Ohio 45418

To the Governing Board:

Compliance

We have audited the compliance of Dayton Academy School, Montgomery County, (the School), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, Dayton Academy School, Montgomery County, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2002-10357-001 and 2002-10357-002. We also noted an instance of non-compliance that does not require inclusion in this report that we have reported to management of the school is a separate letter dated January 6, 2003.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Jim Petro
Auditor of State

January 6, 2003

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
FOR YEAR ENDED JUNE 30, 2002**

| |
|--|
| 1. SUMMARY OF AUDITOR'S RESULTS |
|--|

| | | |
|---------------------|--|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | Yes |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Nutrition Cluster: 10.553 10.555 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

| |
|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|---|

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

| | |
|------------------------------------|--|
| Finding Number | 2002-10357-001 |
| CFDA Title and Number | Nutrition Cluster 10.553 and 10.555 |
| Federal Award Number / Year | 05-PU-2001, 05 PU-2002, LL-P4-2001, LL-P4-2002 |
| Federal Agency | US Department of Agriculture |
| Pass-Through Agency | Ohio Department of Education |

7 CFR 245.6a states that by December 15 of each School Year, School Food Authorities are to select and verify a sample of their approved free and reduced price applications. Dayton Academy did not perform the required verifications. The grant coordinator was not aware of the requirement.

Dayton Academy should perform the required verification, and maintain on file for review, a description of the verification. The description shall include:

- 1) A summary of the verification efforts including the techniques to be used;
- 2) The total number of applications on file by October 31;
- 3) The percentage or number of applications verified;
- 4) All verified applications must be readily retrievable and include all documents submitted by the household in an effort to confirm eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission;
- 5) Documentation of any changes in eligibility and the reasons for the changes; and
- 6) All relevant correspondences between the household selected for verification and the school food authority/school.

By not performing the required verification, the school could be serving ineligible students free or reduced price lunches. The school could lose its federal assistance if it does not comply with all of the grant requirements.

| | |
|------------------------------------|--|
| Finding Number | 2002-10357-002 |
| CFDA Title and Number | Nutrition Cluster 10.553 and 10.555 |
| Federal Award Number / Year | 05-PU-2001, 05 PU-2002, LL-P4-2001, LL-P4-2002 |
| Federal Agency | US Department of Agriculture |
| Pass-Through Agency | Ohio Department of Education |

OMB Circular A-122 Attachment B, states that taxes from which exemptions are available to the organization directly are an unallowable cost. The school paid sales tax on the meals provided to the students. The total sales tax paid for meals during fiscal year 2002 was \$25,600. The school is a tax-exempt entity and should not pay sales tax on its student meals. Total questioned costs for sales tax paid is \$25,600.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2002**

| <u>Finding Number</u> | <u>Finding Summary</u> | <u>Fully Corrected?</u> | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|-----------------------|--|-------------------------|---|
| 2001-10357-001 | Ohio Revised Code Sections 3314.08 (J) Issuance of Long-Term Note. | Yes | |
| 2001-10357-002 | Dayton Academy and Dayton View sharing bank accounts. | Yes | |
| 2001-10357-003 | No contract for Legal Services | Yes | |



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DAYTON ACADEMY 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
APRIL 1, 2003**