**ACADEMY OF DAYTON COMMUNITY SCHOOL**
**MONTGOMERY COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2003**

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 and for the year ended June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the 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, 2003, 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.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As further discussed in Note 18, for the year ended June 30, 2003, the Academy incurred an operating loss in the amount of $796,501, had a working capital deficiency of $839,428, and had an accumulated deficit of $461,757. Additionally, the Ohio Department of Education voted not to renew the Academy's contract following the current term which expires on June 30, 2004. The Academy is actively seeking to obtain sponsorship from another agency and will petition the Ohio Department of Education to authorize the Academy to continue operations for fiscal year 2005. These conditions raise substantial doubt about the School's ability to continue as a going concern. Management's plans regarding these matters are described in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2004, 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.

Betty Montgomery

**Betty Montgomery**
Auditor of State

April 1, 2004

**ACADEMY OF DAYTON COMMUNITY SCHOOL**
**MONTGOMERY COUNTY**

**BALANCE SHEET**
**AS OF JUNE 30, 2003**

**ASSETS**

| | |
|---|---|
| **Current Assets** | |
| Cash | $80,667 |
| Intergovernmental Receivable | 276,488 |
| Prepaid Expenses | 917 |
| Total Current Assets | 358,072 |
| **Noncurrent Assets** | |
| Fixed Assets (Net of Accumulated Depreciation) | 377,671 |
| Total Assets | 735,743 |

**LIABILITIES AND FUND EQUITY**

| | |
|---|---|
| **Current Liabilities** | |
| Accounts Payable | 530,964 |
| Intergovernmental Payable | 659,341 |
| Accrued Wages and Benefits | 7,195 |
| Total Liabilities | 1,197,500 |
| **Fund Equity** | |
| Accumulated Deficit | (461,757) |
| Total Liabilities and Fund Equity | $735,743 |

*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 ACCUMULATED DEFICIT**
**FOR THE YEAR ENDED JUNE 30, 2003**

| | |
|---|---|
| **Operating Revenues** | |
| Foundation Payments | $671,585 |
| Food Sales | 135 |
| Other | 1,247 |
| Total Operating Revenue | 672,967 |
| **Operating Expenses** | |
| Salaries | 490,080 |
| Fringe Benefits | 99,843 |
| Payroll Taxes | 30,006 |
| Purchased Services | 743,761 |
| Materials and Supplies | 83,059 |
| Depreciation | 22,719 |
| Total Operating Expenses | 1,469,468 |
| **Operating Loss** | (796,501) |
| **Non-Operating Revenues** | |
| Grants - State | 5,406 |
| Grants - Federal | 328,129 |
| Total Non-Operating Revenues | 333,535 |
| **Net Loss** | (462,966) |
| Retained Earnings, Beginning of Year | 1,209 |
| **Accumulated Deficit, End of Year** | ($461,757) |

*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, 2003**

| | |
|---|---|
| **Cash Flow from Operating Activities** | |
| Cash Received from State Foundation | $1,327,578 |
| Cash Received from Food Sales | 135 |
| Cash Received from Other | 1,247 |
| Cash Payments to Suppliers for Goods and Services | (732,524) |
| Cash Payments to Employees for Services | (498,031) |
| Cash Payments for Employees Benefits | (89,500) |
| Net Cash Provided by Operating Activities | 8,905 |
| **Cash Flows from Noncapital Financing Activities** | |
| Grants Received - State | 5,406 |
| Grants Received - Federal | 94,669 |
| Net Cash Provided for Noncapital Financing Activities | 100,075 |
| **Cash Flows from Capital and Related Financing Activities** | |
| Payments for Capital Acquisitions | (39,656) |
| Net Increase in Cash | 69,324 |
| Cash, Beginning of Year | 11,343 |
| Cash, End of Year | 80,667 |
| **Reconciliation of Operating Loss to Net Cash Provided by Operating Activities** | |
| Operating Loss | (796,501) |
| **Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities** | |
| Depreciation | 22,719 |
| **Changes in Assets and Liabilities** | |
| Decrease in Accounts Receivable | 3,021 |
| Decrease in Prepaid Items | 41,520 |
| Increase in Accounts Payable | 96,721 |
| Increase in Intergovernmental Payable | 653,540 |
| Decrease in Accrued Expenses | (12,115) |
| Total Adjustments | 805,406 |
| Net Cash Provided by Operating Activities | $8,905 |

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

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## 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. (See Note 18 for further information.)

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, twenty full-time certified teaching personnel and two non-certified support personnel who provide services to an enrollment of approximately 230 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.

### A. Basis of Presentation

The accounting and financial reporting treatment is determined by its measurement focus. 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.

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

### B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. 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 not require the Academy follow budgetary provisions set forth in Ohio Rev. Code Section 5705; however, the contract 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 Notes 9 and 14)

### E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. During fiscal year 2003 the Academy did not have a capitalization threshold, however, subsequent to the balance sheet date, the Academy established a capitalization threshold of $1,000. 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 estimated useful life of 39.5 years.

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

### F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues (foundation payments) 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.

### G. 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, 2003, including:

**Accrued Wages and Benefits Payable** - salary payments made after year-end that were for services rendered in fiscal year 2003. Certain teaching personnel are paid over a twelve month period, however, payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2003 for all salary payments made to teaching personnel during the summer of 2003.

**Intergovernmental Payable** – unexpended federal program receipts totaling $3,348 which have not been returned to the Ohio Department of Education (ODE). The Academy received over payment in fiscal year 2003 through the State Foundation Program. The overpayment amount of $655,993 will be returned to the Ohio Department of Education through deductions from foundation payments in fiscal year 2004. This overpayment is currently in dispute, and the Academy is investigating ODE's grounds for deduction of these funds, and the legal bases for challenging ODE's actions.

## 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, 2003, the carrying amount of the Academy's deposits was $80,667 and the bank balance was $194,970. Of the bank balance, $100,000 was covered by federal depository insurance and $94,970 was uninsured and uncollateralized.

## 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, 2003 consist of the following Federal and State grant programs:

| Grant | Amount |
|---|---|
| Title VI | $ 4,696 |
| Repair and Renovation Grant | 30,935 |
| Title I | 74,529 |
| Food Service | 10,665 |
| IDEA B Grant | 1,909 |
| Start Up Grant | 150,000 |
| Other | 3,754 |
| Total Intergovernmental Receivables | $ 276,488 |

## 5. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2003, follows:

| | |
|---|---|
| Leasehold Improvements | $333,770 |
| Equipment | 70,113 |
| | 403,883 |
| Less: Accumulated Depreciation | (26,212) |
| Net Fixed Assets | $377,671 |

## 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, 2003, 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.

## 7. DEFINED BENEFIT PENSION PLANS

### A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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 Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were $8,377, $3,417, and $1,954, respectively; 52.1 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

### B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371.

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

## 7. DEFINED BENEFIT PENSION PLANS (Continued)

### C. State Teachers Retirement System (Continued)

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were $50,605, $12,180, and $7,211, respectively; 91 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

## 8. POST-EMPLOYMENT BENEFITS

The Academy 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, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $3,893 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was $3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were $354,679,000 and STRS had 105,300 eligible benefit recipients.

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

## 8. POST-EMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. 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 2003, the minimum pay was established at $14,500. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled $5,978.

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, 2002 (the latest information available), were $182,946,777 and the target level was $274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

## 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.

## 9. AGREEMENTS WITH CHARTER SCHOOL ADMINISTRATION SERVICES, INC. (Continued)

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, 2003, the Academy incurred management company fees of $168,847 of which $145,141 remains unpaid and is included in the amounts shown for accounts payable.

## 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 are 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, 2003.

### 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. Note 2G indicates an adjustment for fiscal year 2003, as identified by the Ohio Department of Education. This adjustment is currently in dispute, and the Academy is investigating ODE's grounds for deduction of these funds, and the legal bases for challenging ODE's actions.

### 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. On April 21, 2003 the court dismissed the counts containing constitutional clams and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral arguments on November 18, 2003. The effect of this suit, if any, on the Academy is not 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 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. A holdover provision allows the Academy to continue the terms of the current lease on a "month-to-month" basis at the conclusion of the lease period. In 2003, the Academy subordinated its interest in the lease to a mortgage held by CSAS Real Estate, Inc.'s bank.

## 13. RELATED PARTIES

The President of Charter School Administrative Services, Inc. (CSAS) 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.

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 (See Note 12). CSAS Real Estate, Inc. is the real estate company of Charter School Administrative Services, Inc. (CSAS) the Academy's management company.

## 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:

| Academy | State of Operation |
|---|---|
| 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 |

## 14. CONSORTIUM AGREEMENT (Continued)

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 2002-2003 school year, in an amount equal to $ 67 per month per student enrolled at the Academy, $115,910 for the 2003 school year, of which $76,514 remained unpaid at year end and is included as accounts payable.

## 15. PURCHASED SERVICES

During the year ended June 30, 2003, other purchased service expenses for services rendered by various vendors were as follows:

| | |
|---|---|
| Audit fees | $ 14,439 |
| Advertising | 29,222 |
| Professional and technical services | 80,475 |
| Insurance | 11,818 |
| Management Fee | 168,847 |
| Legal | 3,935 |
| Equipment Leases | 10,886 |
| Maintenance and repairs | 62,806 |
| Indirect costs to consortium | 115,910 |
| Food Service | 71,857 |
| Rent | 129,745 |
| Telephone | 16,625 |
| Meetings and Conferences | 714 |
| Utilities | 22,287 |
| Other | 4,195 |
| | $743,761 |

## 16. TAX EXEMPT STATUS

The Academy has not filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code, nor has the Academy filed tax returns for fiscal 2003, 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. SUBSEQUENT EVENTS

In January, 2004, a State Board of Education resolution was adopted, to not renew the Academy's contract following the current term which expires on June 30, 2004.

## 18. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

As shown in the accompanying financial statements, the Academy had a working capital deficiency of $839,428 as of June 30, 2003. The deficiency is primarily due to accounts payable of $530,964, $249,049 of which was over 90 days old, and a reduction adjustment relating to an overpayment in the fiscal year 2003 State Foundation Program. The overpayment amount of $655,993 will be returned to the Ohio Department of Education (ODE) through deductions from foundation payments in fiscal year 2004. This overpayment is currently in dispute, and the Academy is investigating ODE's grounds for deduction of these funds, and the legal bases for challenging ODE's actions.

As discussed in Note 17, an Ohio Department of Education resolution was adopted, to not renew the Academy's contract following the current term which expires on June 30, 2004. The Academy is actively seeking to obtain sponsorship from another agency and will petition the Ohio Department of Education to authorize the Academy to continue operations for fiscal year 2005.

The Academy's long range plans are to seek increased enrollment for the newer facility which was put in service in fiscal year 2003.

## 19. COMPLIANCE

**Section III (B)(6) of the Academy of Dayton Purchasing Policy** states that no purchases shall be made for goods, construction, or non-teaching services performed by other than the school's employees in a single transaction costing $16,127 or more unless competitive bids for those goods and/or services are obtained and the purchase is approved by the Board. The Academy expended $30,935 for the installation of a new roof, for the Academy's school facility, without subjecting the project to the competitive bidding process.

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**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, 2003, and have issued our report thereon dated April 1, 2004, in which we noted the Academy had an operating loss, a working capital deficiency, and an accumulated deficit, and we expressed 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Academy in a separate letter dated April 1, 2004.

**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 2003-003 through 2003-004.

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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 the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2003-004 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated April 1, 2004.

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

Betty Montgomery

**Betty Montgomery**
Auditor of State

April 1, 2004

**ACADEMY OF DAYTON COMMUNITY SCHOOL**
**MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS**
**FOR THE YEAR ENDED JUNE 30, 2003**

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

### FINDING NUMBER 2003-001

**Section III (B)(6) of the Academy of Dayton Purchasing Policy** states that no purchases shall be made for goods, construction, or non-teaching services performed by other than the school's employees in a single transaction costing $16,127 or more unless competitive bids for those goods and/or services are obtained and the purchase is approved by the Board. An emergency situation provision is provided in Section III (C). This section states that emergency purchases may be made without using the quotation or bidding process. Such emergencies may arise as a result of an accident or other unforeseen occurrence, which could affect the life, health, welfare, or safety of the school's children, employees, or properties.

The Academy expended $30,935 for the installation of a new roof for the Academy's school facility. The Academy did not provide evidence that this project was subjected to the competitive process. The Academy should develop and implement procedures to provide for adherence with the provisions outlined in the purchasing policy.

### FINDING NUMBER 2003-002

The Academy's building lease agreement, for the period August 1, 2002 through July 31, 2005, with CSAS Real Estate, Inc. does not provide for a cancellation clause. **Auditor of State Bulletin 2000-05** advises that lease agreements which extend beyond the current fiscal year should contain a fiscal funding or cancellation clause. Such a clause permits the community school to terminate the agreement on an annual basis if funds are not appropriated to make required payments.

We recommend the Academy amend its lease agreement with CSAS Real Estate, Inc. to include a fiscal funding or cancellation clause.

### FINDING NUMBER 2003-003

The Academy has not applied for tax exempt status under section 501(c)(3) of the Internal Revenue Service Code. Since the Academy has not filed for such status, the net income consequently could be subject to taxation by the Internal Revenue Service. Additionally, the Academy did not file any tax returns.

The Academy should consider applying for tax exempt status under section 501(c)(3) of the Internal Revenue Service Code. Additionally, the Academy should consult with a qualified tax professional to determine necessary tax filings with the Internal Revenue Service.

### FINDING NUMBER 2003-004

For the year ended June 30, 2003, the Academy incurred an operating loss in the amount of $796,501, a working capital deficiency of $839,428, and an accumulated deficit of $461,757. Additionally, the Ohio Department of Education voted to not renew the Academy's contract following the current term which expires on June 30, 2004.

The Academy is actively seeking to obtain sponsorship from another agency and will petition the Ohio Department of Education to authorize the Academy to continue operations for fiscal year 2005.

Accordingly, there is substantial doubt about the School's ability to continue as a going concern.

**ACADEMY OF DAYTON COMMUNITY SCHOOL**
**MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**
**FOR THE YEAR ENDED JUNE 30, 2003**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***: |
|---|---|---|---|
| 2002-10357-001 | Purchasing Policy, Section III (A)(3) regarding fully operational purchase order system. | Yes | |
| 2002-10357-002 | Fixed Assets – Control Weaknesses | Yes | |
| 2002-10357-003 | Purchasing Policy, Section III (B)(6) regarding competitive bidding requirements. | No | Repeat Finding Number 2003-001 |
| 2002-10357-004 | Failure to obtain tax exempt status from the Internal Revenue Service. | No | Repeat Finding Number 2003-003 |

Auditor of State
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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**
**APRIL 29, 2004**