



**Auditor of State
Betty Montgomery**

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the Dayton Academy School (the School), Montgomery County, as of and for the year ended June 30, 2003, as listed in the table of contents. 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 School 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2004 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.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

The accompanying federal awards expenditures schedule 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 5, 2004

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

ASSETS

Current Assets

Cash in Pooled Cash and Cash Equivalents	\$239,702
Accounts Receivable	120
Intergovernmental Receivable	38,054
Edison Receivable	185,885
Total Current Assets	<u>463,761</u>

Non Current Assets

Fixed Assets	<u>348,900</u>
Total Assets	<u><u>812,661</u></u>

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable	114
Intergovernmental Payable	126,744
Pension Obligation Payable	112,736
Accrued Wages and Benefits Payable	23,090
Total Liabilities	<u>262,684</u>

Fund Equity

Retained Earnings	<u>549,977</u>
Total Liabilities and Fund Equity	<u><u>\$812,661</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, 2003**

Operating Revenues	
Sales	\$4,636
State Foundation	5,334,215
Disadvantage Pupil Impact Aid	716,655
Miscellaneous	16,421
	<hr/>
Total Operating Revenues	6,071,927
Operating Expenses	
Fringe Benefits	446,769
Purchased Services	5,730,388
Rent	671,903
Material and Supplies	18,322
Other Operating Expenses	26,482
	<hr/>
Total Operating Expenses	6,893,864
	<hr/>
Operating Loss	(821,937)
Non-Operating Revenues	
Federal and State Grants	1,103,315
Interest	19,033
	<hr/>
Total Non-Operating Revenues	1,122,348
	<hr/>
Net Income	300,411
Retained Earnings at Beginning of Year	249,566
	<hr/>
Retained Earnings at End of Year	\$549,977
	<hr/> <hr/>

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, 2003**

Increase in Cash and Cash Equivalents

Cash Flows From Operating Activities

Cash Received from Sales	\$4,636
Cash Received from State of Ohio	6,180,246
Cash Received from Miscellaneous Sources	16,302
Cash Payments for Fringe Benefits	(447,477)
Cash Payments to Suppliers for Goods and Services	(7,844,085)
Cash Payments for Other Operating Expenses	<u>(26,482)</u>
Net Cash Used For Operating Activities	(2,116,860)

Cash Flows Received From Noncapital Financing Activities

Cash Received From Federal and State Grants	1,498,242
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Cash Flows from Noncapital Investing Activities

Cash Received from Interest	19,033
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Cash Flows Received From Capital and Related Financing Activities

Cash Used For Acquisition of Capital Assets	<u>(348,900)</u>
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Net Decrease in Cash	(948,485)
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Cash at Beginning of Year	<u>1,188,187</u>
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Cash at End of Year	<u><u>239,702</u></u>
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**Reconciliation of Operating Loss to Net Cash
Used For Operating Activities**

Operating Loss	(821,937)
----------------	-----------

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

Change in Assets and Liabilities

Decrease in State Foundation Receivable	129,376
(Increase) in Accounts Receivable	(120)
(Increase) in Edison Receivable	(185,885)
(Decrease) in Accounts Payable	(729)
Increase in Intergovernmental Payable	65,646
Increase in Pension Obligation Payable	112,736
(Decrease) in Accrued Wages and Benefits Payable	(13,708)
(Decrease) in Accrued Edison Fees	<u>(1,402,239)</u>

Net Cash Used For Operating Activities	<u><u>(\$2,116,860)</u></u>
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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, 2003**

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 Rev. 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 eight. 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 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 64 certificated personnel and 31 non-certificated personnel who provide services to approximately 1066 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. Also, the School is associated with the Metropolitan Education Computer Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 14)

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 8). Alliance Community Schools Inc. has contracted with Edison Schools, Inc. to act as a management company for both of the schools. Although no transactions occurred between Dayton View Academy and Dayton Academy, both schools share the same Board of Governance. (See Note 11)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below:

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(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 (GAAP) 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, 2003
(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 2003, of which they were still owed for at June 30, 2003 include: Title I, Title IID, Title V, and Early Childhood Education. 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 2003 school year totaled \$38,054 at June 30, 2003, and is reflected on the accompanying financial statements as an intergovernmental receivable. (See note 4)

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 \$(60,205) and the bank balance was \$21,805. The bank balance was covered by Federal Deposit Insurance. The funds are transferred from the investments in overnight repurchase agreement described below into the checking account, as needed to cover disbursements.

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.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

	Category of Risk 3	Fair Value
Overnight Repurchase Agreement	\$ 299,907	\$ 299,907

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:	\$ 239,702	-
Overnight Repurchase Agreement	(299,907)	299,907
GASB Statement No. 3	\$ (60,205)	\$ 299,907

4. RECEIVABLES

Receivables at June 30, 2003 consisted of 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:

Intergovernmental Receivable:

Title I	\$ 26,259
Title II-D	7,406
Title V	3,683
Early Childhood	706
Total Intergovernmental Receivable	\$ 38,054

The receivable from Edison is a result of underpayments to retirement systems and excess collections of state funding of \$112,736 and \$126,744, respectively, for a total of \$239,480. This amount will be deducted from future monthly settlements to Edison and is netted against the amount contractually owed to Edison of \$53,595, to arrive at the total Edison receivable of \$185,885. (Note 11)

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(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 2003, 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 \$2,500 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 \$963,050 limit. Business personal property has a limit of \$705,859, 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 \$500,000 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 three years.

B. Employee Medical, Dental and Vision Benefits

As part of the management agreement with Edison Schools Inc. (See note 11B), 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 schools fund 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 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 are 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, 2003.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

7. CONTINGENCIES (Continued)

B. Pending Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging 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 claims 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 argument on November 18th, 2003. The effect of the suit, if any, on the Dayton Academy Community 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 overpayment to the School in the amount of \$126,744. This amount is reflected as an intergovernmental payable at June 30, 2003.

8. RELATED PARTY TRANSACTIONS

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, 2003 was \$590,807 for the facilities and \$81,096 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 8.) 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, 2003 was \$81,096.

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, ongoing 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, 2003 was \$590,807.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

9. LEASES (Continued)

The estimated future minimum lease payments as of June 30, 2003 are as follows:

Year Ending June 30,	Land Minimum Lease Payments	Building Minimum Lease Payments	Total Minimum Lease Payments
2004	\$86,520	\$ 435,888	\$522,408
2005	89,040	435,888	524,928
	\$175,560	\$ 871,776	\$1,047,336

10. PURCHASED SERVICES

For the period July 1, 2002 through June 30, 2003 purchased services expenses were payments for services rendered by various vendors as follows:

Management Company Fees	\$5,650,821
Alliance Community Schools	79,567
Total	\$5,730,388

11. 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 ends 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 \$79,567 and rent and common area rental.

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

Amount due current fiscal year	\$7,120,545
Amount remitted current fiscal year	7,066,950
Accrued Edison Fees	53,595
(Less): Edison Receivable	239,480
Net Edison Receivable	\$185,885

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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

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. 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.

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.

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.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

12. 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 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. 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, 2003, 2002, and 2001, were \$81,705, \$28,444 and \$17,325, respectively; 47 percent has been contributed for Fiscal Year 2003 and 100 percent for fiscal years 2002 and 2001. A Pension Obligation Payable in the amount of \$43,200 has been recorded as a liability on the financial statements.

B. State Teachers Retirement System

The School 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 or by calling (614) 227-4090.

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.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (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 School was required to contribute 14 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 School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$348,100, \$ 198,319, and \$ 135,066 respectively; 80 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$ 7,689 made by the School and \$ 10,876 made by the plan members. \$69,536 represents the unpaid contribution amount for fiscal year 2003.

13. 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, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$24,864 for fiscal year 2003.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2003, the balance in the Fund was \$2.8 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

13. POSTEMPLOYMENT 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, a decrease of 2.71 percent from fiscal year 2002. 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 School, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$34,024. 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, 2003 were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

14. JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Education Computer Association – The School is a member of the Metropolitan Dayton Educational Computer Association (MDECA), which is a computer consortium of area schools sharing computer resources. MDECA is an association of public schools in a geographical area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative functions among member schools. The Board of MDECA consists of one representative from each of the participating members. Each member pays an annual membership fee plus any other fees for services performed by the consortium.

15. FIXED ASSETS

The School constructed a cafeteria building with a total cost of \$348,900 during the year. The School does not assign depreciation expense in the year of acquisition.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Breakfast Program	05-PU-02	10.553	\$25,963	\$25,963
	05-PU-03		45,212	45,212
Total National School Breakfast Program			<u>71,175</u>	<u>71,175</u>
National School Lunch Program	LL-P4-02	10.555	58,807	58,807
	LL-P4-03		137,356	137,356
Total National School Lunch Program			<u>196,163</u>	<u>196,163</u>
Total United States Department of Agriculture - Nutrition Cluster			267,338	267,338
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-00	84.010		68,388
	C1-S1-02		321,164	321,164
	C1-S1-03		498,902	498,902
Total ESEA Title I Grant			<u>820,066</u>	<u>888,454</u>
Special Education Cluster:				
Special Education Grants to States (IDEA part B)	6B-SF-03-P	84.027	47,512	47,512
Special Education Preschool Grant	PG-S1-02-P	84.173	2,000	2,000
	PG-S1-03-P		665	665
Total Special Education Preschool Grant			<u>2,665</u>	<u>2,665</u>
Total Special Education Cluster			50,177	50,177
Drug Free Schools Grant	DR-S1-02	84.186	7,718	7,718
	DR-S1-03		2,498	2,498
Total Drug Free Schools Grant			<u>10,216</u>	<u>10,216</u>
Innovative Educational Program Strategies	C2-S1-02	84.298	5,174	5,174
	C2-S1-03		3,469	3,469
Total Innovated Educational Program Strategies			<u>8,643</u>	<u>8,643</u>
Technology Literacy Challenge Fund Grant	TJ-S1-03	84.318	6,974	6,974
Public Charter Schools Program	CH-S1-02	84.282	34,000	284,000
Title II-A Teacher Quality Enhancement	TR-S1-02	84.367	66,138	66,138
	TR-S1-03		125,949	125,949
			<u>192,087</u>	<u>192,087</u>
Total United States Department of Education			1,122,163	1,440,551
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through Montgomery County Education Service Center</i>				
Medical Assistance Program	N/A	93.778	374	374
Total Federal Assistance			<u><u>\$1,389,875</u></u>	<u><u>\$1,708,263</u></u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- CHILD NUTRITION CLUSTER

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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**Auditor of State
Betty Montgomery**

**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 Board of Education:

We have audited the financial statements of Dayton Academy School (the School), Montgomery County, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 5, 2004. 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*. However, we noted an immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated February 5, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2003-001.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated February 5, 2004.

This report is intended for the information and use of the audit committee, management, Board of Education, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 5, 2004



Auditor of State Betty Montgomery

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 (the School), Montgomery County, 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 its major federal program for the year ended June 30, 2003. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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, the School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. However, we noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the School in a separate letter dated February 5, 2004.

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.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

**Internal Control Over Compliance
(Continued)**

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.



Betty Montgomery
Auditor of State

February 5, 2004

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Grants to Local Educational Agencies (ESEA Title I): CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2003-001

The School's internal control procedures over payroll expenditures required the School Board to approve salary and other related payments to employees. The School contracted with Edison Schools, Inc. to perform the functions of a management company, including the payroll function. During fiscal year 2003, bonuses and stipends totaling \$67,425 were paid to employees without School Board approval: These included \$43,750 in bonuses and \$16,975 in stipends relating to fiscal year 2003 services, \$5,700 in stipends relating to fiscal year 2002 services, and \$1,000 in stipends relating to fiscal year 2000 services. To improve controls over expenditures and help prevent the potential unauthorized use of funds, the School Board should review, and if deemed appropriate, approve any such payments to employees prior to actual payment

3. FINDINGS FOR FEDERAL AWARDS

None

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
JUNE 30, 2003**

<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>
2002-10357-001	Nutrition Cluster: Failure to verify a sample of free and reduced lunch applications.	No	Not corrected; however not a major program for this period.
2002-10357-001	Nutrition Cluster: Paid Sales Tax on student meals in the amount of \$25,600.	Yes	Repaid June 26, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
MARCH 4, 2004**