



**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**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
Dayton, Ohio 45427

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Academy of Dayton Community School, Montgomery County, (the Academy), as of and for the year ended June 30, 2004, as listed in the table of contents. 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 reasonably assure 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, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

September 30, 2005

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004**

This section of the Academy of Dayton Community School's (the Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2004. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy of Dayton financially as a whole.

Management's Discussion and Analysis (MD&A)
Required Supplemental Information

Basic Financial Statements
Statement of Net Assets
Statement of Revenues, Expenses and Changes in Net Assets
Statement of Cash Flows

Notes to the Financial Statements

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and changes in net assets which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of revenues, expenses and changes in net assets - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services and food services. Unrestricted state aid and state and federal grants finance most of these activities.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
(Continued)**

Table 1 provides a summary of The Academy's net assets as of June 30, 2004

	2004	2003
	<u>(in thousands)</u>	<u>(in thousands)</u>
Assets		
Current and other assets	\$541.8	\$358.1
Capital assets, net of accumulated depreciation	<u>362.0</u>	<u>377.6</u>
Total assets	<u>903.8</u>	<u>735.7</u>
Liabilities		
Current liabilities	1,341.2	1,197.5
Net Assets		
Invested in Capital Assets – Net of related debt	362.0	377.6
Unrestricted	<u>(799.4)</u>	<u>(839.4)</u>
Total Net Assets	<u><u>(\$437.4)</u></u>	<u><u>(\$461.8)</u></u>

Net Assets – The Academy's net assets increased over the previous year – the increase in net assets was \$24,345. The Academy's net assets are in a deficit position. This is the result of discrepancy in the pupil count resulting in a funding adjustment, for the previous fiscal year of approximately \$655,000. This amount is still being negotiated.

The Academy's improved financial position is the result of several factors. The primary reason for this improvement was the increase in student enrollment, while holding actual expenditures at a stable level.

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's activities is discussed below. The Academy's net assets were negative \$437,412 at June 30, 2004. Capital assets recorded at historical cost, net of depreciation, totaled \$362,011. No long-term debt was used to finance the acquisition of those assets. The Academy does not have any restricted net assets.

The \$(799,423) in unrestricted net assets (deficit) represents the accumulated results of the past years' operations. Since the unrestricted net assets balance is in a deficit, the Academy has difficulty meeting its working capital and cash flow requirements. The liabilities of the Academy are financed through a balance owed to the management company. The operating results of the Academy will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets (deficit) for fiscal year 2004.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
(Continued)**

**TABLE 2
CHANGE IN NET ASSETS**

	2004 (in thousands)	2003 (in thousands)
Operating Revenues		
Foundation	\$1,230.6	\$671.6
Other	4.4	1.4
Non-Operating Revenues		
Grants-State	6.9	5.4
Grants-Federal	437.7	328.1
Total Revenues	<u>1,679.6</u>	<u>1,006.5</u>
Operating Expenses		
Salaries	538.4	490.1
Fringe Benefits	120.9	99.8
Payroll Taxes	23.4	30.0
Purchased Services	856.9	743.8
Materials and Supplies	92.1	83.1
Depreciation	23.5	22.7
Total Expenses	<u>1,655.2</u>	<u>1,469.5</u>
Increase in Net Assets	24.4	(463.0)
Net Assets, beginning of year	<u>(461.8)</u>	<u>1.2</u>
Net Assets, end of year	<u><u>(\$437.4)</u></u>	<u><u>(\$461.8)</u></u>

As reported in the statement of activities, the cost of all of our activities this year was approximately \$1,655,000. Certain activities were partially funded by those who benefited from the programs, or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefits" portion of our activities with \$1,230,559 in state foundation allowance.

The Academy experienced an increase in net assets of \$24,345. Key reasons for the change in net assets were increased enrollment and monitoring expenditures to help reduce the net asset deficit.

Budgetary Highlights

The Academy is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705. Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted just before year-end. There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

As of June 30, 2004, the Academy had \$362,011 invested in capital assets, including leasehold improvements, furniture and equipment. This amount represents a net increase, including additions and disposals, of \$7,850.

Capital Assets	2004 (in thousands)	2003 (in thousands)
Leasehold improvements	\$333.8	\$333.8
Furniture and equipment	77.9	70.1
Sub-Total	<u>411.7</u>	<u>403.9</u>
Less: Accumulated Depreciation	<u>(49.7)</u>	<u>(26.2)</u>
Capital Assets, net	<u><u>\$362.0</u></u>	<u><u>\$377.7</u></u>

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
(Continued)**

This year's additions of \$7,850 included furniture and equipment. No debt was issued for these additions.

No major capital projects are planned for the near future. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy did not have any outstanding debt other than normal trade payables and loan payables to the management company, which are recorded on an accrual basis.

Other obligations include accrued salaries, benefits, and vacation pay. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our administration considers many factors when setting the Academy's 2005 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined based on the student count and the foundation allowance per pupil. The 2005 budget was adopted in June 2004, based on an estimate of students that will be enrolled in September 2004. Approximately 74 percent of the revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on current enrollment data at the start of the 2004-05 school year, we anticipate that the fall student count will be below the estimates used in creating the 2005 budget. Once the final student count and related per pupil funding is validated, the Academy will amend the budget if actual Academy resources are not sufficient to fund the original appropriation.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The impact on the Academy of the State's projected revenue is not known.

Contacting the Academy's Financial Management

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to reflect the Academy's accountability for the funds it receives. Questions concerning any of the information in this report should be directed to:

Andrew Burks, Fiscal Officer
Academy of Dayton Community School
c/o Charter School Administration Services, Inc.
20755 Greenfield Rd, Suite 300,
Southfield, MI 48075

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004**

Assets

Current Assets:

Cash	\$192,785
Intergovernmental Receivable	348,045
Prepaid Expenses	917
	<hr/>
Total Current Assets	541,747

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	362,011
	<hr/>
Total Assets	<u>903,758</u>

Liabilities

Current Liabilities:

Accounts Payable	747,676
Intergovernmental Payable	300,532
Accrued Wages and Benefits	97,962
Loan Payable to Management Company	195,000
	<hr/>
Total Current Liabilities	1,341,170

Net Assets

Invested in Capital Assets	362,011
Unrestricted (Deficit)	(799,423)
	<hr/>
Total Net Assets (Deficit)	<u>(\$437,412)</u>

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
CHANGE IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2004**

Operating Revenues:	
Foundation Payments	\$1,230,559
Food Sales	95
Other	4,303
	<hr/>
Total Operating Revenue	1,234,957
	<hr/>
Operating Expenses:	
Salaries	538,439
Fringe Benefits	120,895
Payroll Taxes	23,400
Purchased Services	856,870
Materials and Supplies	92,166
Depreciation	23,510
	<hr/>
Total Operating Expenses	1,655,280
	<hr/>
Operating Loss	(420,323)
Non-Operating Revenues:	
Grants - State	6,936
Grants - Federal	437,732
	<hr/>
Total Non-Operating Revenues	444,668
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Change in Net Assets	24,345
Accumulated Deficit, Beginning of Year	(461,757)
	<hr/>
Accumulated Deficit, End of Year	(\$437,412)
	<hr/> <hr/>

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, 2004**

Cash Flow from Operating Activities:	
Cash Received from State Foundation	\$1,333,525
Cash Received from Food Program	95
Cash Received from Other	4,303
Cash Payments to Suppliers for Goods and Services	(1,190,751)
Cash Payments to Employees for Services	(468,095)
Cash Payments for Employees Benefits	<u>(123,872)</u>
Net Cash Used for Operating Activities	<u>(444,795)</u>
Cash Flows from Noncapital Financing Activities:	
Grants Received - State	6,936
Grants Received - Federal	<u>362,827</u>
Net Cash Provided for Noncapital Financing Activities	<u>369,763</u>
Cash Flows from Capital and Related Financing Activities:	
Loans from management company	195,000
Payments for Capital Acquisitions	<u>(7,850)</u>
Net Cash Used by Capital and Related Financing Activities	<u>187,150</u>
Net Increase in Cash	112,118
Cash, Beginning of Year	<u>80,667</u>
Cash, End of Year	<u><u>192,785</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(420,323)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	23,510
Changes in Assets and Liabilities	
Increase in Accounts Payable	216,712
(Decrease) in Intergovernmental Payable	(355,461)
Increase in Accrued Wages and Benefits	<u>90,767</u>
Total Adjustments	<u>(24,472)</u>
Net Cash Used for Operating Activities	<u><u>(\$444,795)</u></u>

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

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**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Academy of Dayton Community School (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702. The Academy's objective is to prepare all students to be successful citizens, cooperative workers and profitable entrepreneurs by developing their unique potential. The program is offered for students in kindergarten through third grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed, and contract for any services necessary for the operation of the school.

The Academy was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing on July 1, 1999 through June 30, 2004 after which, the Academy must apply for an additional contract with the Sponsor. The Academy became operational in July of 2000. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a self-appointing five-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility staffed by a director, principal, ten full-time certified teaching personnel, seven non-certified teaching personal and two non-certified support personnel who provide services to an enrollment of approximately 207 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 10 and 15)

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

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.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. 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 net assets. The operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net 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

Community Schools must adopt a spending plan under Ohio Rev. Code Section 5705.391 that requires annual appropriations and annual revenue estimates. Also, the contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is updated on an annual basis.

D. Cash

The Academy's management company, Charter School Administration Services, Inc. (CSAS), which serves as the Academy's fiscal agent, accounts for all monies received by the Academy. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name. Monies for all funds of the Academy are maintained in this account. (See Note 4)

E. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital 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.

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 in the accounting period in which they are earned, essentially the same as the fiscal year.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of net assets relating to expenses, which are due but unpaid as of June 30, 2004, including:

Loans from the Management Company – During fiscal year 2004, the management company loaned the Academy \$195,000, which is outstanding at June 30, 2004. The interest rate is set at 10% annually. These liabilities are due within one year from the date of the agreement. This liability is reported as Loan Payable to Management Company

Accrued Wages and Benefits Payable - Salary payments made after year-end that were for services rendered in fiscal year 2004. Certain teaching personnel are paid year around, however, payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2004 for all salary payments made to teaching personnel during the summer of 2004.

Intergovernmental Payable – The Academy received an overpayment in fiscal year 2003 through the State Foundation Program. The overpayment is being returned to the Ohio Department of Education through deductions from foundation allowance payments. The following is a summary of the Academy's Intergovernmental Payables at June 30, 2004:

Fiscal Year 2003 FTE	\$197,567
Fiscal Year 2004 DDIP	28,856
Fiscal Year 2004 FTE	74,109
Total Intergovernmental Payable	<u>\$300,532</u>

Accounts Payable - For the year ended June 30, 2004, the Academy incurred account payables which consist primarily of management company fees. The following is a summary of the Academy's Account Payables at June 30, 2004:

CSAS	\$706,500
Other	41,176
Total Accounts Payable	<u>\$747,676</u>

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments: Omnibus," and GASB Statement No. 38, "Certain Financial Statements Note Disclosures."

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

GASB 34 created new basic financial statements for reporting on the Academy's financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user's ability to interpret the information within the statements.

4. 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, 2004, the carrying amount of the Academy's deposits was \$192,785 and the bank balance was \$203,719. At June 30, 2004, \$103,719 of deposits was not insured or collateralized.

5. 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, 2004 consist of Federal and State grant programs:

Grant	Amount
Start-up Grant 6/30/03	\$59,625
Title I	56,013
Title II part A	18,897
Title II part D	2,518
Title IV	1,976
Title V	512
21 st Century	54,778
Student Reading Intervention	3,726
Start-up Grant 6/30/04	150,000
Total Intergovernmental Receivable	\$348,045

6. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2004, follows:

	Balance 07/01/03	Additions	Deletions	Balance 06/30/04
Capital Assets, being depreciated:				
Leasehold Improvements	\$333,770	\$0	\$0	\$333,770
Furniture and Equipment	70,113	7,850	0	77,963
Sub-Total	403,883	7,850	0	411,733
Less: Accumulated Depreciation	(26,212)	(23,510)	0	(49,722)
Capital Assets, Net	\$377,671	(\$15,660)	\$0	\$362,011

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

7. 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, 2004, 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.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - 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 state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's contributions to SERS for the years ended June 30, 2004, 2003, and 2002 were \$8,111, \$8,377 and \$3,417, respectively, equal to the required contributions for each year, of which 100 percent has been contributed.

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 is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio Service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2004, were 10% of covered payroll for members and 14% for employers. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$58,391, \$50,605 and \$12,180, respectively; equal to the required contributions for each year, of which 63 percent has been contributed for the fiscal year ended June 30, 2004 and 100 percent for the fiscal years ended June 30, 2003 and 2002.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2004 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

9. POSTEMPLOYMENT BENEFITS

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including the surcharge, was \$4,382 for fiscal year 2004.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deductions. Gross expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net asset available for payment of health care benefits was \$300.8 million.

The number of benefit recipients currently receiving health care benefits is approximately 62,000.

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2004, and June 30, 2003, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the Academy, this amount equaled \$4,491 during the 2004 fiscal year. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

10. 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. 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.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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

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

For the year ended June 30, 2004, the Academy incurred management company fees of \$145,219 of which \$101,949 remains unpaid and is included in the amounts shown for accounts payable.

11. 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, 2004.

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.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

11. CONTINGENCIES (Continued)

C. Litigation

1. Ohio's Community school's program

The suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's 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 on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. No oral argument has been set to date. The effect of this suit, if any, on the Academy is not presently determinable.

2. State funding adjustment

A suit was filed in the Ohio Court of Claims captioned the Academy of Dayton Community School v. Ohio Department of Education (ODE). Pursuant to Ohio Rev. Code Chapter 3314, as a community school, the Academy is entitled to receive payment from the State of approximately \$5,600 for each student that attends the Academy. The action seeks repayment from the ODE of funds that ODE withheld based on ODE's belief that the Academy was overpaid for the number of students who were attending the Academy during the 2002-2003 school year. The Academy asserts that ODE did not have a valid basis for withholding the funds, which total nearly \$450,000, and that the Academy should have been paid for the large majority of the students for whom ODE withheld funds.

12. 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.

13. 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 provision. The Academy subordinated its interest in the lease to a mortgage held by CSAS Real Estate, Inc.'s bank. Fiscal year 2004 payments totaled \$135,360. The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2004:

Year ending June 30	Amount
2005	\$135,360
2006	11,280
Future minimum payments	\$146,640

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

14. RELATED PARTIES

Two of the board members of the Academy are also board members of the Academy of Cleveland and the Academy of Business and Technology. 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 13). CSAS Real Estate, Inc. is the real estate company of Charter School Administrative Services, Inc. (CSAS) the Academy's management company. Total lease payments for the year ended June 30, 2004 to CSAS Real Estate, Inc. were \$135,360 for rent as discussed in Note 13.

Total payments to CSAS, the management company, for overhead fees were \$164,954, as discussed in Note 15. Total payments to CSAS for management company fees were \$145,219, as discussed in Note 10.

15. 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 10). The Members of the consortium including the Academy are:

<u>Academy</u>	<u>State of Operation</u>
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 Lithonia	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 Waterford	Michigan
Academy of Westland	Michigan
Cherry Hill School of Performing Arts	Michigan

The Management Agreement between the Academy and CSAS provides for the allocation of indirect costs incurred by CSAS on behalf of the Academy and the other members of the consortium. Based upon the count of students at the Academy and the other members of the consortium as of September 2000, and the experiences of CSAS in both incurring costs for the consortium members and allocation of such costs to consortium members, the Academy and CSAS has agreed upon an equitable method of such allocation. Based upon the student count, the Academy shall pay CSAS, for all indirect reimbursable expenses incurred by CSAS on behalf of the Academy and other members of the consortium, for the 2002-2004 school year, in an amount equal to \$67 per month per student enrolled at the Academy, \$164,954 for the 2004 school year, of which \$134,134 remained unpaid at year end and is included as accounts payable.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

16. PURCHASED SERVICES

During the year ended June 30, 2004, purchased service expenses for services rendered by various vendors were as follows:

Audit fees	\$ 10,505
Advertising	8,268
Professional and technical services	170,705
Insurance	17,908
Management Fee	145,219
Legal	27,708
Equipment Leases	14,811
Maintenance and repairs	22,962
Indirect costs to consortium	164,954
Food Service	86,909
Rent	141,550
Telephone	17,053
Meetings and Conferences	5,150
Utilities	20,972
Other	2,196
TOTAL	<u>\$856,870</u>

17. TAX EXEMPT STATUS

The Academy has not filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code, however the Academy is in the process of filing the required documents and has retained counsel to prepare and handle the required filings. The Academy has not filed tax returns for fiscal years 2004, 2003, 2002 or 2001 and 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.

18. MANAGEMENT'S PLANS REGARDING CONTINUED EXISTENCE

As shown in the accompanying financial statements, the Academy had a working capital deficiency of \$799,423, an operating loss of \$420,323, and an accumulated deficit of \$437,412 as of June 30, 2004, which is primarily due to accounts payable of \$747,676 of which \$645,437 was over 90 days old.

The Academy's long range plans are to seek increased enrollment for the new facility leased for fiscal 2004. Additionally, the Academy filed suite against ODE asserting that ODE did not have a valid basis for withholding foundation funds, which total nearly \$450,000, and that the Academy should have been paid for the large majority of the students for whom ODE withheld funds (See Note 11C2).

19. SUBSEQUENT EVENTS

A. Sponsorship Agreement

The Academy was approved for a new contract between the Board of Trustees of the Academy and the Ohio Council of Community Schools, the Sponsor, for a period of two years commencing July 1, 2004, which terminates on June 30, 2006.

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

19. SUBSEQUENT EVENTS (Continued)

B. Loan from the Management Company

The Academy entered into a loan agreement with CSAS, the management company, on July 1, 2004 for a loan of \$25,000. The interest rate is set at 10% annually and matures within one year of the date of the agreement.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the Academy of Dayton Community School, Montgomery County, (the Academy), as of and for the year ended June 30, 2004, which comprise the Academy's basic financial statements and have issued our report thereon dated September 30, 2005, wherein we noted that the Academy implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated September 30, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated September 30, 2005, we reported other matters related to noncompliance we did not deem reportable conditions.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
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www.auditor.state.oh.us

We intend this report solely for the information and use of the management and the Board of Trustees. It is not intended for anyone other than these specific 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

September 30, 2005

**ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

<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>
2003-001	Section III (B)(6) of the Purchasing Policy – Failure to comply with competitive bidding requirements	Yes	
2003-002	Lack of a cancellation clause in building lease agreement	Yes	
2003-003	Failure to obtain tax exempt status from the Internal Revenue Service	No	Partially Corrected - The Academy has not filed for tax exempt status, however the Academy is in the process of filing the required documents and has retained counsel to prepare and handle the required filings. This condition will be reported in the management letter for the year ended June 30, 2004.
2003-004	Significant operating loss, negative working capital and an accumulated deficit as of June 30, 2004 – Going concern issue	No	Partially Corrected – The Academy has reduced its operating loss, negative working capital and its accumulated deficit as of June 30, 2004.



**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
NOVEMBER 10, 2005**