



**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

SINGLE AUDIT

FOR THE YEARS ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Dayton View Academy
Montgomery County
1416 West Riverview Avenue
Dayton, Ohio 45402

To the Governing Board:

We have audited the accompanying financial statements of the business-type activity of Dayton View Academy, Montgomery County, (the Academy), as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of Dayton View Academy, Montgomery County, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof 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 27, 2006, 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 Discussions and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America 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.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic 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 27, 2006

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Dayton View Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

In total, net assets decreased \$117,162, which represents a 25.5 percent decrease from 2004.

Total assets increased \$839,548, which represents a 60.0 percent increase from 2004.

Liabilities increased \$956,710 which represents a 101.7 percent increase from 2004.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The statement of net assets includes all assets and liabilities, both short-term and long-term using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2005 and fiscal year 2004:

**(Table 1)
Net Assets**

	<u>2005</u>	<u>2004</u>
Assets:		
Current Assets	\$2,239,542	\$1,399,994
Liabilities:		
Current Liabilities	<u>1,897,168</u>	<u>940,458</u>
Net Assets:		
Unrestricted	<u><u>\$342,374</u></u>	<u><u>\$459,536</u></u>

Total assets increased \$839,548. Cash and cash equivalents increased by \$674,384 from 2004. Cash and cash equivalents increased due to the timing of the Academy receiving and paying invoices. Intergovernmental Receivables increased by \$165,164. Liabilities increased by \$956,710 from 2004, also due to the timing of the Academy receiving and paying invoices. Net Assets decreased by \$117,162. The Academy has no capital assets.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004.

**(Table 2)
Change in Net Assets**

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Sales	\$7,593	\$15,504
State Foundation	6,120,646	5,804,769
Disadvantaged Pupil Impact Aid	795,089	897,322
Miscellaneous	28,718	38,819
Non-Operating Revenues:		
Federal and State Grants	1,786,205	1,846,361
Gifts and Donations	0	30,000
Interest	7,668	7,174
Total Revenues	<u>8,745,919</u>	<u>8,639,949</u>
Operating Expenses		
Fringe Benefits	420,267	384,994
Purchased Services	8,431,385	7,996,142
Rent	6,722	6,520
Materials and Supplies	2,405	186
Other Expenses	2,302	1,789
Total Expenses	<u>8,863,081</u>	<u>8,389,631</u>
Change in Net Assets	(117,162)	250,318
Net Assets Beginning of Year	<u>459,536</u>	<u>209,218</u>
Net Assets End of Year	<u><u>\$342,374</u></u>	<u><u>\$459,536</u></u>

Net assets decreased \$117,162. There was an increase in revenues of \$105,970 and an increase in expenses of \$473,450 from 2004. Community Schools receive no support from tax revenues.

Payroll is handled by a management company. Fringe benefits deducted from the State Foundation Formula increased \$35,273 from 2004. Purchases services increased by \$435,243 due to additional student services being added for fiscal year 2005.

Current Financial Issues

There has been a concentrated effort to improve student accounting to assure there would be no adjustment in the ADM Audit from prior fiscal years. The Academy has been successful in their endeavor as their student record keeping has greatly improved. This should allow more accurate reporting to be available for management documents and historical comparisons in the future.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Phyllis Bixler, Treasurer at Dayton View Academy, 1416 West Riverview Avenue, Dayton, Ohio 45407 or e-mail at ww_treas@mdeca.org.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005**

Assets

Current Assets:

Cash and Cash Equivalents	\$1,499,319
Intergovernmental Receivables	<u>740,223</u>

Total Assets	<u>2,239,542</u>
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Liabilities

Current Liabilities:

Accounts Payable	4,035
Accrued Wages and Benefits	23,090
Edison Payable	<u>1,870,043</u>

Total Liabilities	<u>1,897,168</u>
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Net Assets

Unrestricted	<u>342,374</u>
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<i>Total Net Assets</i>	<u><u>\$342,374</u></u>
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See accompanying notes to the basic financial statements.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Operating Revenues:

Sales	\$7,593
State Foundation	6,120,646
Disadvantaged Pupil Impact Aid	795,089
Miscellaneous	<u>28,718</u>

Total Operating Revenues 6,952,046

Operating Expenses:

Fringe Benefits	420,267
Purchased Services	8,431,385
Rent	6,722
Materials and Supplies	2,405
Other	<u>2,302</u>

Total Operating Expenses 8,863,081

Operating Loss (1,911,035)

Non-Operating Revenues:

Federal and State Grants	1,786,205
Interest	<u>7,668</u>

Total Non-Operating Revenues 1,793,873

Change in Net Assets (117,162)

Net Assets Beginning of Year 459,536

Net Assets End of Year \$342,374

See accompanying notes to the basic financial statements.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Sales	\$7,593
Cash Received from State of Ohio	6,926,207
Cash Received from Miscellaneous Sources	28,718
Cash Payments for Fringe Benefits	(420,360)
Cash Payments to Suppliers for Goods and Services	(7,391,310)
Cash Payments to Others	<u>(2,302)</u>

Net Cash Used for Operating Activities (851,454)

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received 1,518,170

Cash Flows from Investing Activities:

Interest 7,668

Net Increase in Cash and Cash Equivalents 674,384

Cash and Cash Equivalents at Beginning of Year 824,935

Cash and Cash Equivalents at End of Year \$1,499,319

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss (\$1,911,035)

Adjustments to Reconcile Operating

Loss to Net Cash Used for Operating Activities:

Changes in Assets and Liabilities:

Decrease in Intergovernmental Receivable	102,871
Increase in Accounts Payable	370
Decrease in Accrued Wages and Benefits	(693)
Increase in Edison Payable	<u>957,033</u>

Total Adjustments 1,059,581

Net Cash Used for Operating Activities (\$851,454)

See accompanying notes to the basic financial statements.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Alliance Community School "Doing Business As" Dayton View Academy (the Academy) 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 Academy's purpose is to be a charter school serving children from kindergarten through grade eight. The Academy, 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 Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The Academy 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 Academy's tax-exempt status.

The creation of the Academy 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 August 2, 1999. The Ohio State Board of Education approved the proposal and entered into a contract with the Board, which provided for the commencement of Academy operations beginning the fiscal year 2001 and termination upon conclusion of the fiscal year 2005.

The contract with the Ohio State Board of Education was not renewed and the Academy subsequently entered a sponsor contract with the Thomas B. Fordham Foundation for the period of July 1, 2005 through June 30, 2010.

The Academy 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 Governors controls the Academy's one instructional facility staffed by 63 teaching personnel who provide services to approximately 1,040 students.

The Academy is associated with the Metropolitan Dayton Education Computer Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 16)

Alliance Community Schools has several divisions. These divisions operate under the names of Dayton Academy and Dayton View Academy. Alliance Community Schools, Inc. has contracted with Edison Schools, Inc. to act as a management company for both of the Schools. (See Note 14.)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy 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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its proprietary fund. The more significant of the Academy's accounting policies are described below.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The Academy's basic financial statements consists of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The Academy uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial positions and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus, all assets and all liabilities associated with the operation of the Academy are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activity.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Cash and Cash Equivalents

The Academy maintains a public funds sweep account which contains checking as well as overnight repurchase agreements. All funds of the Academy are maintained in this account. This account is presented on the statement of net assets as "Cash and Cash Equivalents".

E. Compensated Absences

The Academy's contract with Edison Schools, Inc. states that all employees will follow Edison's personnel policies. This policy 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 policy states that all vacation should be taken within one year. Therefore, neither sick nor vacation leave is accrued as a liability.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Net Assets

Net assets represent the difference between assets and liabilities. The Academy has no debt or capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Academy did not have any restricted net assets as of June 30, 2005.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State and sales for food services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

H. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as 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 Academy must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the Academy on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in the Academy. The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. This review did not result in an adjustment to foundation revenue in the fiscal year 2005 financial statements.

The remaining grants and entitlements received by the Academy are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

I. Estimates

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

J. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore no budgetary information is presented in the financial statements.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, none of the Academy's bank balance of \$20,075 was exposed to custodial credit risk and the entire balance was covered by the federal depository insurance.

The Academy has no deposit policy for custodial risk beyond the requirements of the State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either the Academy or a qualified trustee by the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

B. Investments

As of June 30, 2005, the Academy invested in a repurchase agreement. The fair value of the repurchase agreement was \$1,486,700.

C. Interest Rate Risk

The Academy has no investment policy that addresses interest rate risk.

D. Credit Risk

The underlying investment in the repurchase agreement was a Federal National Mortgage Association Note which carried a rating of AAA by Moody's and had a final maturity of July 1, 2018. The Academy has no investment policy that would limit its investment choices.

4. RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental (State Foundation and Federal and State grants) receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Lunchroom Federal Subsidy	\$59,826
Title I	438,102
IDEA – B	153,968
Title V	2,002
Title IV	2,000
Title II-A	76,683
Title II-D	7,642
Total Intergovernmental Receivable	<u><u>\$740,223</u></u>

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. RISK MANAGEMENT

The Academy 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 fiscal year ended June 30, 2005, the Academy'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 an \$821,950 limit. Business personal property has a limit of \$602,441, 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.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy's rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$46,573, \$51,398, and \$76,863, respectively; 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System of Ohio

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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.

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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$306,432, \$335,122, and \$307,491, respectively; 100 percent has been contributed for all three fiscal years. Contributions to the DC and Combined Plans for fiscal year 2005 were \$20,695 made by the Academy and \$30,048 made by the plan members.

7. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the 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. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$23,572 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the Academy paid \$15,113 to fund health care benefits, including the surcharge.

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, 2005, were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

8. EMPLOYEE BENEFITS

As part of the management agreement with Edison Schools, Inc. (See Note 14), medical, dental, and vision insurance benefits for Academy Employees are paid by Edison.

9. RELATED PARTY TRANSACTIONS

A. Alliance Edison, LLC (AE)

The Academy leases its land from Alliance Edison, LLC (AE), which is also created under Alliance Community Schools, Inc. The lease expense for the year ended June 30, 2005 was \$6,722. (See Note 10)

B. Board of Governance

Although no transactions occurred between Dayton View Academy and Dayton Academy, both schools share the same Board of Governance.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. LEASES

The Academy subleases a building and 5.8494 acres through Alliance Edison, LLC (AE). (See note 9A) AE leases the land from the Dayton Metropolitan Housing Authority (DHMA). The term of the lease commenced on July 1, 2001 through June 30, 2005. The Academy has an option to renew the lease for seven additional terms of five years. The Academy agreed to pay AE, as rent for the land, an amount equal to the land lease owed to the DMHA, which increases 3% each year. Rent paid for the land for the year ended June 30, 2005 was \$6,722.

11. STATE SCHOOL FUNDING DECISION

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. Oral arguments occurred November 29, 2005. The effect of this suit, if any on Dayton View Academy Community is not presently determinable.

12. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the Grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

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 insure the schools are reporting accurate student enrollment data to the state, upon which State foundation funding is calculated. This review did not result in an adjustment to foundation revenue in the fiscal year 2005 financial statements.

13. PURCHASED SERVICES

For the fiscal year ended June 30, 2005, purchased service expenses for services rendered by various vendors were as follows:

Management Company Fees	\$8,346,972
Alliance Community Schools	84,413
Total	<u>\$8,431,385</u>

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. AGREEMENT WITH EDISON SCHOOLS, INC.

The Academy 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. On July 1, 2004, the Academy renewed the contract with Edison Schools, Inc. The term of the contract is July 1, 2004 and ending on June 30, 2009. The contract shall be renewed for an additional five year term. 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 Academy in accordance with the Academy's contract with the Thomas B. Fordham Foundation for continued operations of the Academy. Significant provisions of the contract are as follows:

A. Financial Provisions

The Academy is required to remit monthly to Edison all qualified gross revenue defined in the contract as "all external source revenue which the Academy receives and for which the Academy or its students are eligible from federal or State sources," except for \$84,413 and rent and common area rental. The following is a summary of current payment activity to Edison:

Amount due current fiscal year	\$8,346,972
Amount remitted current fiscal year	<u>(6,476,929)</u>
Accrued Edison Fees	<u>\$1,870,043</u>

1. The Academy's Financial Responsibility

The Academy is responsible for initial start up costs and rent. The Academy is responsible to pay for fees for legal services not related to the operation of the Academy.

2. Edison Financial Responsibilities

Edison is responsible for costs associated with operating the Academy. 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, audit, legal and financial management services related to the operation of the Academy and repairs and maintenance of the Academy's facilities.

Edison shall equip the Academy'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.

3. Budget

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

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

B. Personnel

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

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

C. Agreement Termination

1. Termination by the Academy

The Academy 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 Academy.

2. Termination by Edison

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

15. EDISON SCHOOLS, INC. EXPENSES

For the fiscal year ended June 30, 2005, Edison Schools, Inc. incurred the following expenses on behalf of the Academy.

	<u>2005</u>
Expenses:	
Direct Expenses:	
Salaries and Wages	\$2,985,063
Employee Benefits	513,716
Professional and Technical Services	246,738
Property Services	466,403
Travel	37,149
Communications	10,785
Utilities	128,894
Contracted Craft or Trade Services	435,693
Other Purchased Services	13,620
Books, Periodicals and Films	105,353
Other Supplies	98,389
Depreciation	469,440
Interest	3,715
Other Direct Costs	105,796
Indirect Expenses:	
Overhead	<u>1,230,292</u>
Total Expenses	<u>\$6,851,046</u>

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

16. JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Cooperative Association - The Academy is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The Academy paid MDECA \$3,431 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

17. CHANGE IN ACCOUNTING PRINCIPLES

During the year 2005, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure". GASB Statement No. 40 establishes and modifies the disclosure requirement related to investment risks. The implementation of this statement did not result in any change to the Academy's financial statements.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the Academy's financial statements for fiscal year 2005.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
Nutrition Cluster:				
National School Breakfast Program	05-PU-04	10.553	\$46,657	\$46,657
	05-PU-05		79,814	79,814
Total National School Breakfast Program			<u>126,471</u>	<u>126,471</u>
National School Lunch Program	LL-P4-04	10.555	138,172	138,172
	LL-P4-05		239,305	239,305
Total National School Lunch Program			<u>377,477</u>	<u>377,477</u>
Total United States Department of Agriculture - Nutrition Cluster			503,948	503,948
UNITED STATES DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Title 1 Grants to Local Educational Agencies	C1-S1-04	84.010	119,791	128,501
	C1-S1-05		555,991	879,811
	C1-SK-04		(9,000)	
	C1-SK-05		14,000	19,236
Total Title I Grants to Local Educational Agencies			<u>680,782</u>	<u>1,027,548</u>
Special Education Grants to States	6B-SF-04	84.027	15,060	
	6B-SF-05		146,705	267,872
Total Special Education Grants to States			<u>161,765</u>	<u>267,872</u>
Safe and Drug-Free Schools and Communities_State Grants	DR-S1-04	84.186	2,685	
	DR-S1-05		17,996	19,996
Total Safe and Drug-Free Schools and Communities_State Grants			<u>20,681</u>	<u>19,996</u>
State Grants for Innovative Programs	C2-S1-04	84.298	1,582	1,200
	C2-S1-05		5,014	7,016
Total State Grants for Innovative Programs			<u>6,596</u>	<u>8,216</u>
Education Technology State Grant	TJ-S1-04	84.318	5,408	
	TJ-S1-05		15,792	22,985
Total Education Technology State Grant			<u>21,200</u>	<u>22,985</u>
Improving Teacher Quality State Grant	TR-S1-04	84.367	10,575	9,289
	TR-S1-05		63,856	92,885
Total Improving Teacher Quality State Grant			<u>74,431</u>	<u>102,174</u>
Total United States Department of Education			965,455	1,448,791
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Montgomery County Educational Service Center:				
Medical Assistance Program	N/A	93.778	746	746
Total United States Department of Health and Human Services			<u>746</u>	<u>746</u>
Total Federal Assistance			<u>\$1,470,149</u>	<u>\$1,953,485</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Academy'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 INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Dayton View Academy
Montgomery County
1416 West Riverview Avenue
Dayton, Ohio 45402

To the Governing Board:

We have audited the financial statements of the business-type activity of Dayton View Academy, Montgomery County (the Academy), as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 27, 2006. 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-001.

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. 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 material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Academy's management dated February 27, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring 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 February 27, 2006, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, governing board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 27, 2006



Auditor of State Betty Montgomery

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

Dayton View Academy
Montgomery County
1416 West Riverview Avenue
Dayton, Ohio 45402

To the Governing Board:

Compliance

We have audited the compliance of Dayton View Academy, Montgomery County, (the Academy), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal program. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy'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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

As described in item 2005-002 in the accompanying schedule of findings and questioned costs, the Academy did not comply with the requirements regarding reporting requirements applying to its National School Breakfast program. Compliance with those requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to that program. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are described in the accompanying schedule of findings and questioned costs as items 2005-003 through 2005-005.

Internal Control Over Compliance

The Academy's management 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 Academy's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated February 27, 2006.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 27, 2006

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(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 noncompliance 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	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	<i>Child Nutrition Cluster:</i> School Breakfast Program CFDA # 10.553 National School Lunch Program CFDA # 10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2005-001

The Academy provided reduced and full priced meals (Breakfasts and Lunches) to its students based on the income and household size qualifications as outlined by the USDA. The following rates were established by the Academy for each individual meal served:

	<u>Breakfast</u>	<u>Lunch</u>
Reduced	\$ 0.30	\$ 0.40
Full Price	\$ 1.20	\$ 2.10

During 2004-2005 school year, the Academy served 1,644 reduced and 459 full priced breakfast meals. At the established rates the Academy should have collected \$1,044.00; however, the actual collections for breakfast were \$1,285.40 which is \$241.40 more than should have been collected.

During the same period, the Academy served 4,987 reduced and 3,138 full priced lunch meals. At the established rates the Academy should have collected \$8,584.60; however, the actual collections for lunch were \$6,092.80 which is \$2,491.80 less than should have been collected.

For the entire year, the Academy collected \$2,250.40 less than it should have collected based on number of reduced and full priced breakfasts and lunches served.

The Management Company attributed the variance to the Academy serving meals to reduced and full price students who did not have money to pay for the meals. Therefore, these meals were counted as either full or reduced priced when no money was collected.

The Board should establish formal procedures on serving meals to reduced and full price students who are unable to pay for their meals. This policy should outline Board's view about serving these students and procedures that will be followed to collect the money from the parents. If the student's family is in financial distress, a reevaluation of the status of student might be conducted to determine if the student qualifies for free meals. A count of such students should be maintained separately from students who paid for their meals. The Academy should institute procedures to provide that all breakfast and lunch collections are properly collected and deposited in Academy's bank account. Additionally, cash receipts for food service should be periodically reviewed by someone independent of the collection process. Failure to do so could result in questioned costs and findings against the Academy.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Breakfasts Served

Finding Number	2005 – 002
CFDA Title and Number	Child Nutrition Cluster, CFDA # 10.553 and 10.555
Federal Award Number / Year	05-PU-04, 05-PU-05, LL-P4-04, LL-P4-05
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

7 CFR sections 210.8(b), 225.9(d), and 225.15(c)(2) state that to receive reimbursement payments for meals served, a School Food Authority (SFA), institution, or sponsor must submit claims for reimbursement to its administering agency. The claiming process per **7 CFR sections 210.7(c), 210.8(c), and 225.9(d)** is as follows:

At a minimum, a claim must include the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must be of types authorized by the SFA's, institution's, or sponsor's administering agency; must be served to eligible children; and must be supported by accurate meal counts and records indicating the number of meals served by category and type.

During 2004-2005 school year, the Ohio Department of Education (ODE) reimbursed the Academy for various types of meals at the following rate for each meal served:

<u>Meal Type</u>	<u>Breakfast</u>	<u>Lunch</u>
Full Priced Meal	\$0.23	\$0.23
Reduced Priced Meal	1.17	1.86
Free Meal	\$1.47	\$2.26

The Academy served 82,189 free breakfasts, 1,644 reduced priced breakfasts and 459 full priced breakfasts for a total of 84,292 breakfasts. They were reimbursed by the ODE accordingly based upon the above mentioned rates. The Academy collected cash locally from the students for each full and reduced priced breakfast sold. Total amount of cash collected by the Academy from its students was \$241 more than what should have been collected based on the number of reduced and full priced breakfasts served. See finding number 2005-001 for more details.

Comparison of breakfast meal servings reported by the Academy to actual number of breakfast and lunch meals bought from Dayton Public Schools (which provided all meals) indicated that the Academy reported serving more breakfast meals than they actually purchased. The Academy reported serving 84,292 breakfasts compared to 63,888 breakfasts that they actually purchased from Dayton Public Schools. Therefore, the Academy overstated breakfast servings by 20,404.

Based on a rate of \$1.47 reimbursed by the ODE for each free breakfast served, in accordance with the above facts, total federal questioned cost for reporting more breakfasts served than actually bought is \$29,993.88. Free breakfast rate was used for calculating the questioned cost amount as the Academy accounted for each reduced and full priced breakfast served through cash collected from its students locally. As noted above, the Academy collected more cash than it should have based on the number of full priced and reduced breakfasts served.

The Academy should implement procedures to verify that accurate meal counts are being submitted for reimbursement, including comparison to the meals purchased from its supplier prior to submission for reimbursement to prevent over/under stating the actual meals served. Failure to do so can result in more federal questioned costs and loss of grant funding from the awarding agency.

2. Meal Applications

Finding Number	2005 – 003
CFDA Title and Number	Child Nutrition Cluster, CFDA # 10.553 and 10.555
Federal Award Number / Year	05-PU-04, 05-PU-05, LL-P4-04, LL-P4-05
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

7 CFR 245.6 states that to qualify a child for meals/milk served free or at reduced price under the program(s), the child's family must annually submit an application to the School Food Authority (SFA). The application must be approved and maintained on file. The application establishes that the child's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by Food and Nutrition Service (FNS).

Five out of 60 or 8% of the students tested for free and reduced meals did not have a completed application on file indicating the eligibility of the student to participate in the program. Additionally, four out of 60 or 6.7% of the students tested were approved to receive benefits that were not in accordance with the income eligibility guidelines established by the United States Department of Agriculture (USDA). Three students received reduced meals when they were supposed to pay full for their meals based on their family size and income. One student received free meals when he/she was only eligible to receive reduced priced meals.

Procedures should be established to verify that all students participating in free and reduced meals program have a completed application on file at the Academy and all applications are approved in accordance with the guidelines established for providing free and reduced meals. Failure to do so can result in students not eligible to receive meals under the program, benefiting from the program or students receiving the incorrect type of benefits.

3. Meal Eligibility

Finding Number	2005 – 004
CFDA Title and Number	Child Nutrition Cluster, CFDA # 10.553 and 10.555
Federal Award Number / Year	05-PU-04, 05-PU-05, LL-P4-04, LL-P4-05
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

7 CFR 245.6a(a) requires that by December 15th of each school year, a School Food Authority (SFA) must verify the information presented on a sample of the applications that it has approved for free or reduced price meals. The verification sample size is based on the number of approved applications on file on October 31st. The SFA may select the sample by either (1) random sampling (the lesser of 3,000 approved applications or 3 percent of total approved applications on file, all randomly selected), or (2) focused sampling, in which the SFA must verify a sample that is, at a minimum, the **sum of**:

3. Meal Eligibility (Continued)

- a. The lesser of one percent or 1,000 of the total number of approved applications (both income and categorical) selected from households claiming income within \$100 monthly or \$1200 annually of the income eligibility guidelines for free and reduced price meals; **and**
- b. The lesser of 0.5 percent or 500 of the total number of applications that were approved based on categorical eligibility, selected from applications with a Food Stamp Program or TANF case number.

The SFA must follow-up on children determined ineligible for free and reduced price meals and change the category of such children determined ineligible.

The Academy used the random sampling method to verify the eligibility of 40 out of 1,023 (3.91%) students participating in Free and Reduced meals program. Exceptions were noted on three applications where students were participating under reduced meals program even though they qualified as full pay based on the established guidelines.

The Academy failed to follow-up on children originally determined as eligible for free and reduced price meals and change their category to ineligible when so determined. All three children received the benefits until the end of the school year.

The Academy should establish and implement procedures to verify free and reduced meal applications in accordance with program guidelines and to follow up on any exceptions noted during the verification process.

Further, free and reduced applications are also used to assess poverty levels for various other federal programs. Missing or incorrect applications can result in determination of wrong funding amounts by various awarding agencies that base their award on the accuracy of these applications.

4. Lunch Reporting

Finding Number	2005 – 005
CFDA Title and Number	Child Nutrition Cluster, CFDA # 10.553 and 10.555
Federal Award Number / Year	05-PU-04, 05-PU-05, LL-P4-04, LL-P4-05
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

7 CFR sections 210.15(a) states that participating school food authorities are required to submit forms and reports to the State agency or the distributing agency, as appropriate, to demonstrate compliance with program requirements.

In the State of Ohio, participating organizations in Child Nutrition Cluster must file monthly reports on the number of meals/milk served, by type, to claim program funds. For the National School Lunch Program and School Breakfast Program, participating organizations must submit final meal/milk claims to the State no later than 60 days after the claiming month. Financial information must also be reported. This financial information is generally reported on the Ohio Department of Education (ODE) prescribed forms used to report meals/milk served.

4. Lunch Reporting (Continued)

The following variance was noted between the number of lunches served per the Site Claim Form submitted to ODE and Calculation for State Report:

The number of lunches served per the Calculation for the State Report prepared by the Academy and submitted to the Management Company was 615 more than Site Claim Form submitted to the ODE for the month of September.

Additionally, a variance of \$23.58 for the month of December was also noted between amount collected for full pay and reduced lunches per Site Claim Form submitted to the ODE and Treasurer's receipts. The amount on Treasurer's receipts was more than the report.

A variance of \$2,250.40 was noted between Calculation for State Report prepared by the Academy and submitted to the Management Company and amounts recalculated by Auditor of State. The recalculated amount was more than the amount reported by the Academy.

The Academy should implement procedures to verify that accurate meal counts and financial information is submitted to the ODE for reimbursement. Failure to do so could result in federal questioned costs and loss of future grants funding from the awarding agency.



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DAYTON VIEW ACADEMY

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 30, 2006**