



**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE PERIOD ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Dayton Academy School
Montgomery County
4401 Dayton-Liberty Rd.
Dayton, Ohio 45418

To the Board of Governance:

We have audited the accompanying balance sheet of Dayton Academy School, Montgomery County, (the School), as of June 30, 2000, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dayton Academy School, Montgomery County, as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2001, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

August 31, 2001

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**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**BALANCE SHEET
As of JUNE 30, 2000**

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 293,889
Receivables:	
Intergovernmental	267,120
Other	<u>353,899</u>
Total Current Assets	914,908
Non-Current Assets:	
Furniture and Equipment, Net	15,088
Other Assets	<u>8,790</u>
Total Non-Current Assets	<u>23,878</u>
Total Assets	<u><u>\$ 938,786</u></u>

LIABILITIES AND EQUITY

Current Liabilities:	
Accounts Payable	\$ 97,815
Intergovernmental Payable	247,971
Accrued Edison Fees	<u>560,678</u>
Total Current Liabilities	906,464
Equity:	
Retained Earnings	<u>32,322</u>
Total Liabilities and Equity	<u><u>\$ 938,786</u></u>

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS
FOR THE PERIOD ENDED JUNE 30, 2000**

Operating Revenues:	
Foundation Payments	\$ 2,531,530
Disadvantaged Pupil Impact Aid	<u>631,562</u>
Total Operating Revenues	<u>3,163,092</u>
Operating Expenses:	
Salaries	9,900
Fringe Benefits	48,481
Purchased Services	3,348,162
Materials and Supplies	13,572
Depreciation and Amortization	21,401
Other Operating Expenses	<u>665,517</u>
Total Operating Expenses	<u>4,107,033</u>
Operating (Loss)	<u>(943,941)</u>
Non-Operating Revenues:	
Private Grants	297,026
Federal and State Grants	510,092
Loss on Sale of Equipment	(7,013)
Interest and Miscellaneous	<u>495</u>
Total Non-Operating Revenues	<u>800,600</u>
Net Loss	(143,341)
Retained Earnings at Beginning of Year	<u>175,663</u>
Retained Earnings at End of Year	<u><u>\$ 32,322</u></u>

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2000**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 3,163,092
Cash Payments to Employees for Services	(64,773)
Cash Payments to Suppliers for Goods and Services	<u>(2,949,402)</u>

Net Cash Provided By Operating Activities 148,917

Cash Flows from Noncapital Financing Activities:

Federal, State, and Private Grants Received	169,504
Miscellaneous Income	<u>495</u>

Net Cash Provided By Noncapital Financing Activities 169,999

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(199,455)</u>
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Net Increase in Cash and Cash Equivalents 119,461

Cash and Cash Equivalents at Beginning of Year 174,428

Cash and Cash Equivalents at End of Year \$ 293,889

**Reconciliation of Operating (Loss) to Net Cash
Provided By Operating Activities:**

Operating (Loss) \$ (943,941)

**Adjustments to Reconcile Operating (Loss) to Net
Cash Provided By Operating Activities:**

Depreciation and amortization 21,401

Change in Assets and Liabilities:

Decrease in Amounts Payable Related to Equipment Purchase	199,455
Increase in Accounts Payable	69,315
Increase in Intergovernmental Payable	247,971
Increase in Accrued Edison Fees	<u>554,716</u>

Net Cash Provided By Operating Activities \$ 148,917

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

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**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Alliance Community School "Doing Business As" Dayton Academy School (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational literary, scientific and related teaching service. Specifically, the School's purpose is to be a charter school serving children from kindergarten through grade five during its first year and adding a grade over the next three years, extending through grade eight by the 2003 school year. The School, which is part of the state's education program, is to operate or arrange for the operation of schools in the Dayton, Ohio area. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status.

The creation of the School was initially proposed to the Ohio State Board of Education, the sponsor, by the Board of Trustees of Alliance Community Schools, Inc. (the Board) on November 9, 1998. The Ohio State Board of Education approved the proposal and entered into a contract with the Board, which provided for the commencement of School operations beginning the 1999/2000 academic year and shall terminate upon conclusion of the 2003/2004 school year.

The School operates under a seven member Board of Trustees. This Board exercises its authority by appointing a separate five member Governing Board for the School. The Board 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 School's one instructional facility staffed by 39 teaching personnel who provide services to approximately 624 students.

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

Dayton Academy School operates as Alliance Community Schools, Inc. and has contracted with Edison Schools, Inc. to act as a management company for the School (see note 14). The School also leases its facilities from a separately Incorporated Ohio Not-for-Profit entity Alliance Facilities Management (AFM) (see note 9A).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the School's contract with its sponsor. The contract between Alliance Community Schools, Inc. and its sponsor, Ohio State Board of Education, requires a detailed school budget for each year of the School's contract, however, the budget is not required to follow the provisions of Ohio Rev. Code Section 5705.

D. Cash and Cash Equivalents

The School's fiscal officer accounts for all monies received by the School. To improve cash management, all cash received from the State of Ohio is electronically transferred into an account. The School transfers funds into the main checking account as needed. Monies received for restricted purposes are maintained in a separate checking account. Individual fund integrity is maintained through School records and the accounting system. The School had no investments during the period.

E. Estimates

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School maintains a capitalization threshold of \$1,000. The School does not possess any infrastructure. The School did not capitalize any interest during the period. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture, equipment and vehicles is computed using the straight-line method over the following estimated useful lives. The School sold most of these fixed assets in July 2000 to Edison Schools.

<u>Assets</u>	<u>Years</u>
Vehicles	5
Furniture & Equipment	5 - 7

G. Intergovernmental Revenue

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. These programs are recognized as operating revenues in the accounting period in which they are earned and become measurable. Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

Dayton Academy School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, Dayton Academy School was awarded \$50,000 during the current period.

H. Compensated Absences

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

3. DEPOSITS AND INVESTMENTS

At June 30, 2000, the School had a cash balance of \$293,889, which is presented as cash and cash equivalents in the accompanying financial statements. The bank balance of the School's deposits was \$397,209. Of the bank balance \$118,423 was covered by federal deposit insurance and \$278,786 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2000 consisted of intergovernmental (e.g. foundation and federal grants) receivables and other receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

Other receivables are amounts due from Edison Schools, Inc. for the purchase of the School's furniture, fixtures, and equipment; Alliance Facilities Management for initial facilities start up cost; and the Dayton Business Community for annual local support, all of which are considered collectible in full, due to these organizations ongoing business relationship with the School.

A summary of the principal items of receivables is as follows:

<u>Intergovernmental Receivable:</u>	
Title I	\$220,159
Title II	5,090
Title IV	6,261
Title VI	4,504
Title VI-R	<u>31,106</u>
Total Intergovernmental Receivable	<u>\$267,120</u>
<u>Other Receivable:</u>	
Edison Schools, Inc.	\$165,255
Alliance Facilities Management	133,644
Dayton Business Community	<u>55,000</u>
Total Other Receivable	<u>\$353,899</u>

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2000, follows:

Office equipment and school furnishing	\$ 4,719
	<u>13,525</u>
	18,244
Transportation equipment	<u>13,525</u>
Total Fixed Assets	18,244
Less: Accumulated Depreciation	<u>(3,156)</u>
Net Fixed Assets	<u>\$15,088</u>

The School revised the contract with their management company, Edison Schools, Inc., in May 2000, and made it retroactive to August 1999. This revised contract stated Edison shall purchase the desks and other furniture and furnishings and appropriate equipment for facilities from the School for \$165,255. These assets remained at the School; however, became Edison's property. The purchase amount had not been received as of June 30, 2000; and therefore, was recorded as an Other Receivable on the year end financial statements in the amount of \$165,255 (see note 4).

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended 2000, the School's management company, Edison Schools, Inc., carried comprehensive insurance on all of the schools they manage. This policy cannot be broken out on a per school basis, and therefore is presented on a cumulative basis. Edison Schools, Inc. contracted with Willis of Tennessee, Inc. for employee dishonesty (crime and fiduciary) bonds, business personal property, equipment hardware and software, general liability, and excess liability insurance.

Employee dishonesty crime coverage carries a \$10,000 deductible and has a \$1,000,000 limit. Employee dishonesty fiduciary liability also has a limit of \$1,000,000, with no deductible. Business personal property coverage provides \$26,018,790 with a \$3,000 deductible. Computer equipment hardware carries a \$3,000 deductible and has a \$53,524,368 limit. Computer software has a limit of \$2,582,316 with a \$3,000 deductible. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate. In addition, the general liability provides \$300,000 for fire damage for any one fire, and \$5,000 for medical expenses for any one person. Willis of Tennessee, Inc. also provides an excess liability coverage umbrella for \$25,000,000 each occurrence and in aggregate.

B. Employee Medical, Dental and Vision Benefits

As part of the management agreement with Edison Schools, Inc. (see note 14 B), insurance benefits for School employees are paid by Edison.

7. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.
- ▶ The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.
- ▶ In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of August 31, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000
(Continued)**

7. STATE SCHOOL FUNDING DECISION (Continued)

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

8. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2000.

B. Pending Litigation

A Suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (ie., Charter) Schools program violates the State Constitution and State laws. The effect of this suit, if any, on the School is not presently determinable.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. During the fiscal year ended June 30, 2000, the School billed the state of Ohio in excess of the amounts due to them based on an estimated number of pupils the School expected the first year. The amount outstanding at June 30, 2000 was \$247,971 and is reported as an intergovernmental payable. The School is to repay the state of Ohio with monthly deductions from FYE 2002 foundation payments which are scheduled to begin in October 2001 and end in June 2002.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000
(Continued)**

9. RELATED PARTY TRANSACTIONS

A. Alliance Facilities Management (AFM)

The School leases its facilities for \$43,750 per month and land for \$4,167 per month from Alliance Facilities Management (AFM), a related nonprofit organization. The lease expense for the year ended June 30, 2000 was \$350,000 for the facilities and \$43,743 for the land (see note 11). The School has a receivable at year end in the amount of \$133,644 from Alliance Facilities Management for initial facilities start up cost (see note 4).

B. Coolidge, Wall, Womsley & Lombard

The Secretary of Alliance Community Schools, Inc. was also employed as the School's attorney, Coolidge, Wall, Womsley & Lombard. Total payments made for related legal fees for the year ended June 30, 2000 was \$28,671. The School also had a payable to the firm at June 30, 2000 in the amount of \$55,040.

10. PRIVATE GRANT

The School received \$297,026 in private grants from the Dayton Foundation for the purpose of supplementing start-up costs and to meet special emergency needs. In accordance with the terms of these grant agreements, the proceeds were used in the operation of School.

11. LEASES

The School subleases a building and 4.441 acres together with the non-exclusive right to use and occupy some common areas through a related nonprofit organization, Alliance Facilities Management (AFM) (see note 9A). AFM leases the land from the Young Mens Christian Association (YMCA). The School agreed to pay AFM, as rent for the land and the common areas, an amount equal to the land lease due by AFM owed to the YMCA. During the first year of the lease, this amount was \$50,000, payable in equal monthly installments of \$4,167.

The abovementioned lease also states the School must pay AFM for rent of the building, an amount equal to the debt service relating to any financing obtained. A FM obtained a real estate loan for the building for \$2,750,000. This debt was financed over ten years, at an interest rate per annum equal to the bank's prime rate. The School, with written notification, has an option to renew the lease for four additional terms of five years. The School leases its facilities for \$43,750 per month and land for \$4,167 per month. The rent expense paid for the year ended June 30, 2000 was \$43,743 for the land and \$350,000 for the building.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000
(Continued)**

11. LEASES (Continued)

The future minimum lease payments as of June 30, 2000, is as follows:

Year Ending June 30,	Land Minimum Lease Payments	Building Minimum Lease Payments	Total Minimum Lease Payments
2001	\$ 50,004	\$ 525,000	\$ 575,004
2002	50,004	525,000	575,004
2003	50,004	525,000	575,004
2004	50,004	525,000	575,004
2005	50,004	525,000	575,004
	<u>\$ 250,020</u>	<u>\$ 2,625,000</u>	<u>\$ 2,875,020</u>

12. PURCHASED SERVICES

For the period July 1, 1999 through June 30, 2000, purchased services expenses were payments for services rendered by various vendors as follows:

Management Company Fees	\$3,154,670
Food Service (On-Behalf of Expenditures)	187,972
Other	<u>5,520</u>
Total	<u>\$3,348,162</u>

13. SUBSEQUENT EVENTS

A. Forgiveness of Receivable

In November 2000, the School forgave a \$133,644 receivable from Alliance Facilities Management, Inc. (AFM), net a payable to AFM of (\$19,424), net forgiveness \$114,220. This transaction is not recognized in the financial statements.

B. Payable Converted to Debt

The School had Accrued Edison Fees at year end, of which \$500,000 was converted to a ten year promissory note on January 21, 2001. This action is in violation of ORC section 3314.08J which states a community school cannot repay debt, for a period longer than one year with state funds.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000
(Continued)**

14. AGREEMENT WITH EDISON SCHOOLS, INC.

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

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit monthly to Edison all qualified gross revenue defined in the contract as "Appendix F" except for \$75,000.

At year end, the School was delinquent in remitting a portion of the required fees to Edison in the amount of \$808,649.

2. The School's Financial Responsibilities

The School is responsible for initial start up costs, rent and common area rental, and the Edison Loan (see note 13 B). The School is responsible to pay for fees for audit and legal services not related to the operation of the School.

3. Edison Financial Responsibilities

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

Edison must secure and maintain commercial general liability coverage for bodily injury and property damage; Educator Liability coverage; Automobile Liability insurance, for personal injury and property damage; Property Insurance for facilities; and Workers Compensation insurance for employees (see note 6 A).

4. Budget

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2000
(Continued)**

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

B. Personnel

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

In addition, any accrued payroll, the related benefits, and pension obligation for the School's employees is included in the Accrued Edison Fees, as these amounts are figured in the amount of revenues remitted to Edison throughout the school year. At year end, the School's total School Employees Retirement System (SERS) contributions due exceeded total monthly contributions paid by \$21,131. The difference represented an unpaid balance at year end, that was due to SERS by July 15, 2000.

C. Agreement Termination

1. Termination by the School

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

2. Termination by Edison

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



**STATE OF OHIO
OFFICE OF THE AUDITOR**

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

Dayton Academy School
Montgomery County
4401 Dayton-Liberty Rd.
Dayton, Ohio 45418

To the Board of Governance:

We have audited the financial statements of Dayton Academy School (the School) as of and for the year ended June 30, 2000, and have issued our report thereon dated August 31, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings 2000-10357-001 and 2000-10357-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated August 31, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated August 31, 2001.

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

Jim Petro
Auditor of State

August 31, 2001

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2000**

FINDING NUMBER 2000-10357-001

Ohio Rev. Code Sections 3309.47 and 3309.49 require that school districts withhold from employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined by School Employees Retirement System (SERS) and to pay over to SERS the amounts withheld, matched with an appropriate percentage of employer matching contributions. During the period tested, the School's total SERS contributions due exceeded total monthly contributions paid by \$21,131. The difference represented an unpaid balance at year end, that was due to SERS by July 15, 2000.

On November 14, 2000, the School paid the total balance due SERS. To comply with the abovementioned Sections of Code and to reduce the risk of incurring late payment penalties, the School should remit to SERS, the amounts withheld, matched with an appropriate percentage of employer matching contributions and adhere to the monthly payment schedule established for payment of SERS contributions.

FINDING NUMBER 2000-10357-002

Ohio Rev. Code Section 3314.03(A)(11)(g) states the community school governing authority is required to submit an annual report of its activities and progress in meeting the goals and standards of divisions (A)(3) and (4) (academic goals method to determine progress and performance standards to evaluate a school's success) of this section and its financial status to the sponsor, the parents of all students enrolled in the school, and the Legislative Office of Education Oversight. The school failed to file the abovementioned report. To comply with the above section of code, the School should file an Annual Report of Activities.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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DAYTON ACADEMY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 18, 2001**