



**Auditor of State
Betty Montgomery**

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Dayton View Academy School
Montgomery County
1416 West Riverview Avenue
Dayton, Ohio 45407

To the Governing Board:

We have audited the accompanying balance sheet of the Dayton View Academy School, Montgomery County, (the School) as of June 30, 2002, and the related Settlement 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 the Dayton View Academy School, Montgomery County, as of June 30, 2002, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2003, 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.

Dayton View Academy School
Montgomery County
Independent Accountants' Report
Page 2

The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Betty Montgomery

Betty Montgomery
Auditor of State

January 31, 2003

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

ASSETS

Current Assets

Pooled Cash and Cash Equivalents	\$928,856
State Foundation Receivable	58,246
Intergovernmental Receivables	<u>232,616</u>
Total Assets	<u>1,219,718</u>

LIABILITIES AND EQUITY

Liabilities

Current

Accounts Payable	904
Intergovernmental Payable	54,896
Accrued Wages and Benefits	<u>35,798</u>
Total Current Liabilities	<u>91,598</u>

Long Term Liabilities

Accrued Edison Fees	<u>942,225</u>
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Total Liabilities

1,033,823

Equity

Retained Earnings	<u>185,895</u>
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Total Liabilities and Equity

\$ 1,219,718

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

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenues

Sales	\$79,231
State Foundation Payments	4,147,545
Disadvantaged Pupil Impact Aid	<u>757,077</u>
	<u>4,983,853</u>

Total Operating Revenues

Operating Expenses

Salaries	33,000
Fringe Benefits	302,491
Purchased Services	5,504,359
Rent	144,708
Materials and Supplies	88,029
Other Operating Expenses	<u>717</u>
	<u>6,073,304</u>

Total Operating Expenses

Operating Loss

(1,089,451)

Non-Operating Revenues

Federal and State Grants	790,118
Interest	30,009
Miscellaneous	<u>47,889</u>
	<u>868,016</u>

Total Non-Operating Revenues

Net Loss

(221,435)

Retained Earnings at Beginning of Year (Restated - See Note 14)

407,330

Retained Earnings at End of Year

\$185,895

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

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Sales	\$79,231
Cash Received from State of Ohio	4,846,376
Cash Payments to Suppliers for Goods and Services	(5,597,597)
Cash Payments for Employee Benefits	(244,797)
Cash Payments Other Operating Expenses	<u>(717)</u>

Net Cash Used for Operating Activities (917,504)

Cash Flows from Noncapital Financing Activities

Federal and State Grants	<u>900,906</u>
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Cash Flows from Noncapital Investing Activities

Interest	30,009
Miscellaneous	<u>47,889</u>

Net Cash Provided for Noncapital Financing Activities 77,898

Net Increase in Cash and Cash Equivalents 61,300

Cash and Cash Equivalents at Beginning of Year 867,556

Cash and Cash Equivalents at End of Year 928,856

Reconciliation of Operating Loss to Net Cash

Used for Operating Activities

Operating Loss (1,089,451)

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

Change in Assets and Liabilities

Increase in State Foundation Receivable	(58,246)
Decrease in Accounts Payable	(32,708)
Increase in Accrued Edison Fees	172,207
Increase in Intergovernmental Payable	54,896
Increase in Accrued Wages and Benefits	<u>35,798</u>

Net Cash Used By Operating Activities (\$917,504)

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

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**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Alliance Community School "Doing Business As" Dayton View 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 fifth during its first year and adding a grade over the next three years, extending through grade eight by the 2004 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 fiscal year 2001 academic year and shall terminate upon conclusion of the fiscal year 2004 school year.

The School operates under a seven-member Board of Trustees. This Board exercises its authority by appointing a separate five-member 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 45 teaching personnel who provide services to approximately 816 students. Furthermore, Dayton View Academy School and Dayton Academy School share the same Board. (See note 8B.)

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.

Alliance Community Schools has several divisions. These divisions operate under the names of Dayton Academy and Dayton View Academy. The School also leases its facilities from a separately Incorporated Ohio Not-for-Profit entity Alliance Edison, LLC (AE). (See note 8A.) Alliance Community Schools Inc. has contracted with Edison Schools, Inc. to act as a management company for both of the Schools. (See Note 11.) In addition, the secretary of the parent company, Alliance Community Schools, Inc. was also employed as the School's legal counsel. Likewise, the accounting firm employed to perform the School's conversion to generally accepted accounting principles (GAAP), also performed the duties of fiscal officer for the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with 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 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 VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

The School's fiscal officer accounts for all monies received by the School. To improve cash management, all cash received from the State of Ohio is electronically transferred into the main checking account. This checking account is set up as a sweep account. Individual fund integrity is maintained through School records and the accounting system.

E. Estimates

The preparation of the financial statements in conformity with 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 VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenue

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$50,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

In addition, the School also participates in various federal and state programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2002 include: Eisenhower Grant Program, Title I Program, Title VI Program, Drug & Safety Program, Classroom Reduction Program, and Teacher Training & Development Program. Revenue to be received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts owed to the School under the above named programs for the 2002 school year totaled \$290,862 at June 30, 2002, and is reflected on the accompanying financial statements as an intergovernmental and foundation receivable.

G. Compensated Absences

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

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

Deposits: At year-end, the carrying amount of the School's deposits was (\$492,016) and the bank balance was \$20,721. The bank balance was covered by federal deposit insurance. The funds are transferred from the investment in overnight repurchase agreement described below into the checking account, as needed to cover disbursements.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**
(Continued)

3. DEPOSITS AND INVESTMENTS (Continued)

Investments: The School's investments are required to be categorized to give an indication of the level of risk assumed by the School at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School or its agent in the School's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School's name.

	Category of Risk 3	Fair Value
Overnight Repurchase Agreement	\$1,420,872	\$1,420,872

The classification of cash in pooled cash, and cash equivalents on the balance sheet is based on criteria set forth in GASB Statement No. 9.

A reconciliation between the classifications of cash in pooled cash, and cash equivalents on the balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 928,856	
Investments of the Cash Management Pool: Overnight Repurchase Agreement	(1,420,872)	1,420,872
GASB Statement No. 3	(\$492,016)	\$1,420,872

4. RECEIVABLES

Receivables at June 30, 2002 consisted of school foundation receivables and intergovernmental (federal grant) receivables. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of receivables is as follows:

<u>State Foundation Receivable</u>	\$ 58,246
<u>Intergovernmental Receivable:</u>	
State Grants	\$ 17,219
Lunchroom	51,529
Title I	158,593
Title II	520
Title VI	3,348
Title VI-R	1,407
Total Intergovernmental Receivable	\$ 232,616
Total	\$ 290,862

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

5. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended 2002, 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. Computer equipment carries a \$10,000 deductible and has a \$30,000,000 limit. Business personal property has a limit of \$32,500,000, with a \$10,000 deductible. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate. In addition, the general liability provides \$100,000 for fire damage for any one fire, and \$5,000 for medical expenses for any one person.

B. Employee Medical, Dental and Vision Benefits

As part of the management agreement with Edison Schools, Inc. (See note 11B.), insurance benefits for School employees are paid by Edison.

6. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

7. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2002.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**
(Continued)

7. CONTINGENCIES (Continued)

B. Pending Litigation

A Suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State laws. 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. The review resulted in the discovery of an underpayment to the School in the amount of \$58,246. This amount is reflected as a State foundation receivable and is included in State foundation revenue.

8. RELATED PARTY TRANSACTIONS

A. Alliance Facilities Management (AFM)

The School leases its facilities and land from Alliance Facilities Management (AFM), which is also created under Alliance Community Schools, Inc. The lease expense for the year ended June 30, 2002 was \$139,708 for the facilities and \$5,000 for the land. (See note 9.)

B. Board of Governance

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

9. LEASES

The School subleases a building and 5.8494 acres through Alliance Edison, LLC (AE). (See note 8A.) AE leases the land from the Dayton Metropolitan Housing Authority (DHMA). The School agreed to pay AE, as rent for the land, an amount equal to the land lease owed to the DHMA, which increases 3% each year. During the first year of the lease, this amount was \$6,000, payable in equal monthly installments of \$500 starting in September 2000.

The above mentioned lease also states the School must pay AE for rent of the building, an amount equal to the debt service relating to any financing obtained; plus loan closing cost, on going loan administration cost associated with any financing secured by the premises, including but not limited to, cost associated with satisfying the financial reporting and periodic appraisal requirements. AE obtained a real estate loan for the building financed over two years ending in fiscal year 2003. The School, with written notification, has an option to renew the lease for seven additional terms of five years. The rent expense paid for the year ended June 30, 2002 was \$5,000 for the land and \$139,708 for the building.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**
(Continued)

9. LEASES (Continued)

The future minimum lease payments as of June 30, 2002, is as follows:

Year Ending June 30,	Land Minimum Lease Payments	Building Minimum Lease Payments	Total Minimum Lease Payments
2003	\$ 6,335	\$ 12,328	\$ 18,663
2004	6,525		6,525
2005	6,720		6,720
	<u>\$19,580</u>	<u>\$12,328</u>	<u>\$31,908</u>

10. PURCHASED SERVICES

For the period July 1, 2001 through June 30, 2002 purchased services expenses were payments for services rendered by various vendors as follows:

Management Company Fees	\$5,504,359
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11. AGREEMENT WITH EDISON SCHOOLS, INC.

On June 20, 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 August 1, 2000 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 \$77,250 and rent and common area rental, as stated in Article 8 of the Edison Contract.

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

Amount due current fiscal year	\$5,249,877
Amount remitted current fiscal year	<u>(4,307,652)</u>
Accrued Edison Fees	\$942,225

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

2. The School's Financial Responsibilities

The School is responsible for initial start up costs and rent. 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 5A.)

4. Budget

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

B. Personnel

All personnel working at the School are employees of the Alliance Community Schools, Inc. except the Business Service Manager, 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 are included in the Accrued Edison Fees, as these amounts are included in the amount of revenues remitted to Edison throughout the school year.

C. Agreement Termination

1. Termination by the School

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

2. Termination by Edison

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

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**
(Continued)

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For FY 2001, 4.2 per cent was 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 School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2002 and 2001 were \$20,609 and \$12,629; 84 percent been contributed for fiscal year 2002 and 100 percent has been contributed for fiscal year 2001. \$3,315 represents the unpaid contribution for fiscal year 2002.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2002 and 2001 were \$171,718 and \$132,302; 80 percent been contributed for fiscal year 2002 and 100 percent has been contributed for fiscal year 2001. \$33,563 represents the unpaid contribution for fiscal year 2002.

As described in Note 11B the school is responsible for all personnel matters. As also described in Note 11B, the school has an agreement with Edison Schools Inc. that all transactions related to School personnel are handled by Edison throughout the year, funding for which is included in the revenues remitted to Edison. All accrued payroll, related benefits and pension obligations are to be paid by Edison Schools Inc. Management has no reason to believe, as of the date of this report, the School has any additional liability for any of these obligations.

**DAYTON VIEW ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**
(Continued)

13. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$81,340 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 per cent from Fiscal Year 2001. 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 2001, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$44,060.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

14. Restatement of Retained Earnings

A restatement was necessary for cash and cash equivalents due to bank accounts not included in last year's report. Previously retained earnings and net income were \$388,086. The restatement of \$19,244 for beginning retained earnings and net income brings the new balance to \$407,330.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title		Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education:</i>					
Nutrition Cluster:					
National School Breakfast Program	05-PU-2001	10.553	\$10,346	\$10,346	\$10,346
	05-PU-2002		42,165	42,165	42,165
Total National School Breakfast Program			52,511	52,511	52,511
National School Lunch Program	LL-P4-2001	10.555	40,370	40,370	40,370
	LL-P4-2002		163,958	163,958	163,958
Total National School Lunch Program			204,328	204,328	204,328
Total U.S. Department of Agriculture - Nutrition Cluster			256,839	256,839	256,839
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education:</i>					
Grants to Local Educational Agencies (ESEA Title 1)	C1-S1-2001	84.010	205,111	205,111	205,111
	C1-S1-2002		248,356	44,704	44,704
Total Grants to Local Educational Agencies (ESEA Title 1)			453,467	249,815	249,815
Innovative Educational Program Strategies	C2-S1-2001	84.298	2,043	2,043	2,043
	C2-S1-2002		931	931	931
Total Innovative Educational Program Strategies			2,974	2,974	2,974
Drug-Free Schools Grant	DR-S1-2001	84.186	3,916	3,916	3,916
	DR-S1-2002		5,912	1,301	1,301
Total Drug-Free Schools Grant			9,828	5,217	5,217
Eisenhower Professional Development Grant	MS-S1-2001	84.281	575	575	575
	MS-S1-2002		7,264	6,983	6,983
Total Eisenhower Professional Development Grant			7,839	7,558	7,558
Class Size Reduction	CR-S1-2001	84.340	27,745	27,745	27,745
	CR-S1-2002		53,085	14,864	14,864
Total Class Size Reduction			80,830	42,609	42,609
Charter Start-Up Grant	CH-S1-2001	84.282	50,000	50,000	50,000
Total Department of Education			604,938	358,173	358,173
Total Federal Assistance			\$861,777	\$615,012	

The accompanying notes to this schedule are an integral part of this schedule.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Dayton View Academy School
Montgomery County
1416 West Riverview Avenue
Dayton, Ohio 45407

To the Governing Board:

We have audited the financial statements of Dayton View Academy School, Montgomery County, (the School), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 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 January 31, 2003.

Dayton View Academy School
Montgomery County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 31, 2003



Auditor of State Betty Montgomery

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

Dayton View Academy School
Montgomery County
1416 West Riverview Avenue
Dayton, Ohio 45407

To the Governing Board:

Compliance

We have audited the compliance of Dayton View Academy School, Montgomery County, (the School), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, Dayton View Academy School, Montgomery County, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2002-10357-001. We also noted an instance of non-compliance that does not require inclusion in this report that we have reported to management of the school in a separate letter dated January 31, 2003.

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Dayton View Academy School
Montgomery County
Independent Accountants' Report on Compliance with Requirements
Applicable to Major Federal Programs and Internal
Control Over Compliance In Accordance With OMB Circular A-133
Page 2

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 31, 2003

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR YEAR ENDED JUNE 30, 2002**

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)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: 10.550 Title I: 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

1. Title of Finding

Finding Number	2002-10357-001
CFDA Title and Number	Title I 84.010
Federal Award Number / Year	C1-S1-2001, C1-S1-2002
Federal Agency	US Department of Education
Pass-Through Agency	Ohio Department of Education

OMB Circular A-133, Subpart C § .300 states that the school shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the school is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

The School is required to remit monthly to the management company, Edison Inc., all qualified gross revenue defined in Appendix F and Article 8 of the Edison Contract. This includes Federal Title I awards received by Dayton View Academy.

Edison did not separately track amounts expended under Title I awards for the Dayton View Academy. Edison provided a list of teachers, aides, tutors and administrators for which they indicated were paid Title I salary and fringes; however; these expenditures were not identified and tracked as Title I expenditures throughout the year. Edison needed an extensive amount of time to compile Title I information, therefore; indicative of failing to maintain control over the procedures of managing expenditures of Title I federal awards.

The lack of an effective grant tracking system could result in unallowable expenditures, or the loss of Federal funding.

The School should monitor the accounting system of Edison and Federal activity to comply with Federal regulations.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2001-10357-001	Dayton View Academy and Dayton Academy sharing bank accounts.	Yes	
2001-10357-002	No contract for Legal Services	Yes	



**Auditor of State
Betty Montgomery**

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**DAYTON VIEW 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
APRIL 1, 2003**