



**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 financial statements of the Dayton View Academy School (the School), Montgomery County, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2004 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 5, 2004

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**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

ASSETS

Assets

Cash in Pooled Cash and Cash Equivalents	\$286,054
Accounts Receivable	104
Intergovernmental Receivable	100,671
Edison Receivable	66,887
	<hr/>

Total Assets 453,716

LIABILITIES AND EQUITY

Liabilities

Accounts Payable	2,241
Intergovernmental Payable	120,003
Accrued Wages and Benefits Payable	23,090
Pension Obligation Payable	99,164
	<hr/>
Total Liabilities	244,498

Fund Equity

Retained Earnings	<u>209,218</u>
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Total Liabilities and Fund Equity \$453,716

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, 2003**

Operating Revenues	
Sales	\$14,067
State Foundation	5,013,885
Disadvantage Pupil Impact Aid	778,873
Miscellaneous	<u>15,210</u>
 Total Operating Revenues	 <u>5,822,035</u>
 Operating Expenses	
Fringe Benefits	380,377
Purchased Services	6,359,288
Rent	19,619
Materials and Supplies	10,952
Other Operating Expenses	<u>1,074</u>
 Total Operating Expenses	 <u>6,771,310</u>
 Operating Loss	 <u>(949,275)</u>
 Non-Operating Revenues	
Federal and State Grants	955,500
Interest	<u>17,098</u>
 Total Non-Operating Revenues	 <u>972,598</u>
 Net Income	 23,323
 Retained Earnings at Beginning of Year	 <u>185,895</u>
 Retained Earnings at End of Year	 <u><u>\$209,218</u></u>

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, 2003**

Increase in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Sales	\$14,067
Cash Received from State of Ohio	5,851,004
Cash Received from Miscellaneous Sources	15,106
Cash Payments to Suppliers for Goods and Services	(7,246,363)
Cash Payments for Employee Benefits	(380,085)
Cash Payments for Other Operating Expenses	(1,074)
Net Cash Used For Operating Activities	(1,747,345)

Cash Flows from Noncapital Financing Activities

Cash Received from Federal and State Grants	1,087,445
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Cash Flows from Investing Activities

Cash Received from Interest	17,098
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Net Decrease in Cash	(642,802)
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Cash at Beginning of Year	928,856
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Cash at End of Year	286,054
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Reconciliation of Operating Loss to Net Cash Used For Operating Activities

Operating Loss	(949,275)
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Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities

Change in Assets and Liabilities

Decrease in State Foundation Receivable	58,246
(Increase) in Accounts Receivable	(104)
(Increase) in Edison Receivable	(66,887)
Increase in Accounts Payable	1,337
Increase in Intergovernmental Payable	65,107
(Decrease) in Accrued Wages and Benefits Payable	(12,708)
Increase in Pension Obligation Payable	99,164
(Decrease) in Accrued Edison Fees	(942,225)

Net Cash Used For Operating Activities	(\$1,747,345)
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The accompanying notes to the financial statements are an integral part of this statement.

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**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Alliance Community 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 59 certificated personnel and 45 non-certificated personnel to approximately 990 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. The School is associated with the Metropolitan Education Computer Association. It is a computer consortium of area schools sharing computer resources. (See Note 14)

Alliance Community Schools has several divisions. These divisions operate under the names of Dayton Academy and Dayton View Academy. The School also rents 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)

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (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:

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. This checking account is set up as a sweep account. Individual fund integrity is maintained through School records and the accounting system.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Estimates

The preparation of the financial statements in conformity with generally 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.

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.

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 2003 include: Title I Program, Title II-D, the Special Education Grants to States, Drug Free Schools, Innovative Education Program Strategies, National School Breakfast and Lunch Programs, and Title II-A. Revenue to be received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts owed to the School under the above named programs for the 2003 school year totaled \$100,671 at June 30, 2003, and is reflected on the accompanying financial statements as an intergovernmental receivable.

G. 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

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.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits: At year-end, the carrying amount of the School's deposits was \$19,640 and the bank balance was \$20,829. The bank balance was covered by Federal Deposit Insurance. The funds are transferred from the investment in overnight repurchase agreement described below in to the checking account, as needed to cover disbursements.

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

	<u>Category 3</u>	<u>Fair Value</u>
Overnight Repurchase Agreement	\$266,414	\$266,414

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:

	<u>Pooled Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9 Investments of the Cash Management Pool:	\$286,054	
Overnight Repurchase Agreement	<u>(266,414)</u>	<u>\$266,414</u>
GASB Statement No. 3	<u>\$ 19,640</u>	<u>\$266,414</u>

4. RECEIVABLES

Receivables at June 30, 2003 consisted of intergovernmental federal grant receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

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

<u>Intergovernmental Receivable:</u>	
Title I	\$ 73,108
Title II-A	20,000
Title II-D	4,102
Title IV	50
 Title V	 <u>3,411</u>
Total	<u>\$100,671</u>

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

4. RECEIVABLES (Continued)

The receivable from Edison is a result of underpayments to retirement systems and excess collections of state funding of \$99,164 and \$120,003, respectively, for a total of \$219,167. This amount will be deducted from future monthly settlements to Edison and is netted against the amount contractually owed to Edison of \$152,280 to arrive at the total Edison receivable of \$66,887. (Note 11)

5. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended 2003, the School's management company, Edison Schools, Inc., carried comprehensive insurance on all of the schools they manage. This policy cannot be broken out on a per school basis, and therefore is presented on a cumulative basis. Edison Schools, Inc. contracted with Willis of Tennessee, Inc. for employee dishonesty (crime and fiduciary) bonds, business personal property, equipment hardware and software, general liability, and excess liability-insurance.

Employee dishonesty crime coverage carries a \$2,500 deductible and has a \$1,000,000 limit. Employee dishonesty fiduciary liability also has a limit of \$1,000,000, with no deductible. Computer equipment carries a \$50,000 deductible and has a \$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.

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 decision is unconstitutional.

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

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

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, 2003.

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. 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 is set for oral argument on November 18, 2003. 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 overpayment to the school in the amount of \$120,003. This amount is reflected as an intergovernmental payable at June 30, 2003.

8. RELATED PARTY TRANSACTIONS

A. Alliance Edison, LLC (AE)

The School leases its land from Alliance Edison, LLC (AE), which is also created under Alliance Community Schools, Inc. The rental expense for the year ended June 30, 2003 was \$19,619. (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 5.8494 acres through Alliance Edison, LLC (AE). (See note 8A.) AE leases the land from the Dayton Metropolitan Housing Authority (DMHA). The School agreed to pay AE, as rent for the land, an amount equal to the land lease owed to the DMHA, which increases approximately 3% each year.

The abovementioned lease also states the School must pay AE for rent of the building, however, such building rent ended in fiscal year 2003. The School, with written notification, has an option to renew the lease for seven additional terms of five years. Future minimum land lease payments for fiscal year 2004 are approximately \$6,525 and fiscal year 2005 is approximately \$6,720.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

10. PURCHASED SERVICES

Purchased service expenses were payments for services rendered as follows:

Management Company Fees	\$6,359,288
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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 \$79,567 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	\$4,414,145
Less: Amount remitted current fiscal year	<u>4,261,865</u>
Accrued Edison Fees Payable	152,280
(Less): Edison Receivable	<u>219,167</u>
Net Edison Receivable	<u>\$ 66,887</u>

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.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

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

Edison shall equip the School's facilities with desks and other furniture and furnishings and these items are considered property of Edison. Edison must secure and maintain commercial general liability coverage for bodily injury and property damage; Educator Liability coverage; Automobile Liability insurance, for personal injury and property damage; Property Insurance for facilities; and Workers Compensation insurance for employees. (See note 5A.)

4. Budget

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

B. Personnel

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

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 figured 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.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 43215-3476 or by calling (614) 222-5853.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

12. DEFINED BENEFIT PENSION PLANS (Continued)

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. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$76,863, \$20,609 and \$12,629 respectively; 44 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$43,200 represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 9.5 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

12. DEFINED BENEFIT PENSION PLANS (Continued)

The School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$307,491, \$171,718, and \$132,302 respectively; 82 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$8,572 made by the School and \$7,593 made by the plan members. \$55,964 represents the unpaid contribution for fiscal year 2003.

13. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$21,964 for fiscal year 2003.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 per cent from Fiscal Year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School, the amount contributed to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$32,007.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

14. JOINTLY GOVERNED ORGANIZATION

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

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Breakfast Program	05-PU-02	10.553	\$24,636	\$24,636
	05-PU-03		<u>57,284</u>	<u>57,284</u>
Total National School Breakfast program			81,920	81,920
National School Lunch Program	LL-P4-02	10.555	87,621	87,621
	LL-P4-03		<u>194,074</u>	<u>194,074</u>
Total National School Lunch Program			<u>281,695</u>	<u>281,695</u>
Total United States Department of Agriculture - Nutrition Cluster			363,615	363,615
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-02	84.010		203,652
	C1-S1-03		<u>526,147</u>	<u>526,147</u>
Total ESEA Title I Grant			526,147	729,799
Special Education Grants to States (IDEA part B)	6B-SF-03-P	84.027	27,258	27,258
Drug Free Schools Grant	DR-S1-02	84.186		4,611
	DR-S1-03		<u>2,062</u>	<u>2,062</u>
Total Drug Free Schools Grant			2,062	6,673
Innovative Educational Program Strategies	C2-S1-02	84.298	2,278	2,278
	C2-S1-03		<u>3,212</u>	<u>3,212</u>
Total Innovated Educational Program Strategies			5,490	5,490
Technology Literacy Challenge Fund Grant	TJ-S1-03	84.318	12,306	12,306
Title II-A Teacher Quality Enhancement	TR-S1-02	84.367	1,015	38,502
	TR-S1-03		<u>91,850</u>	<u>91,850</u>
Total II-A Teacher Quality Enhancement			<u>92,865</u>	<u>130,352</u>
Total United States Department of Education			666,128	911,878
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through Montgomery County Education Service Center</i>				
Medical Assistance Program	N/A	93.778	<u>795</u>	<u>795</u>
Total Federal Assistance			<u>\$1,030,538</u>	<u>\$1,276,288</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- CHILD NUTRITION CLUSTER

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

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**Auditor of State
Betty Montgomery**

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

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

To the Governing Board:

We have audited the financial statements of the Dayton View Academy School (the School), Montgomery County, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated February 5, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted 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 School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

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

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

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



Betty Montgomery
Auditor of State

February 5, 2004



Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS' 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 (the School), Montgomery County, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 its major federal program for the year ended June 30, 2003. However, we noted an instance of noncompliance that does not require inclusion in this report that we have reported to management of the School in a separate letter dated February 5, 2004.

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

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

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



Betty Montgomery
Auditor of State

February 5, 2004

**DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY**

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

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

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

FINDING NUMBER 2003-001

REPORTABLE CONDITION

The School's internal control procedures over payroll expenditures required the School Board to approve salary and other related payments. The School contracted with Edison School's, Inc. to perform the functions of a management company, including the payroll function. During fiscal year 2003, bonuses and stipends totaling \$68,050 were paid without School Board approval: \$45,800 in bonuses and \$18,250 in stipends related to fiscal year 2003 services, and \$4,000 in stipends related to fiscal year 2002 services. To improve controls over expenditures and help prevent the potential unauthorized use of funds, the School Board should review, and if deemed appropriate, approve any such payments prior to actual payment

3. FINDINGS FOR FEDERAL AWARDS

None.

DAYTON VIEW ACADEMY SCHOOL
MONTGOMERY COUNTY

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10357-001	Title I: Failure to track Title I expenditures separately.	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
JUNE 10, 2004**