



**Auditor of State
Betty Montgomery**

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Alliance Academy of Cincinnati
Hamilton County
1712 Duck Creek Road
Cincinnati, Ohio 45207

To The Board of Directors:

We have audited the accompanying basic financial statements of the Alliance Academy of Cincinnati, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with auditing principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

August 31, 2005

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

The discussion and analysis of Alliance Academy of Cincinnati, Hamilton County, Ohio (the Academy), financial performance provides an overall review of the Academy's financial activities through June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and noted to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. There is no comparative information due to this being the first year of operation.

Using This Financial Report

This report consists of a three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, and a Statement of Cash Flows.

Basic Financial Statements

The basic financial statements include all assets and liabilities and results of operations using the accrual basis of accounting, which is similar to the accounting used by most private sector companies.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the activities for the Academy, which encompass the Academy's services, including instruction, support services and food services. State aid (based on student county) and state and federal grants finance most of these activities. The Academy has entered into a management agreement with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students. As part of the consideration received under the management agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

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

	Net Assets 2004
Assets – Current	\$ 811,012
Liabilities – Current	\$ 797,459
Net Assets – Unrestricted	<u>\$ 13,553</u>

The unrestricted net assets represent the accumulated results of the Academy's operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the statement of activities, which shows the change in net assets.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

The table below provides a summary of the Academy's change in net assets for the period ended June 30:

	Change in Net Assets 2004
Operating revenues—	
Foundation Payments	\$ 1,596,332
State Special Education Program	62,211
DPIA	425,217
Other State Sources	57,000
Charges for Services	3,818
Other	1,673
Total operating revenue	2,146,251
Operating expenses—	
Contracted Service Fee	3,459,050
Fringe Benefits	96,396
Total operating expenses	3,555,446
Operating loss	(1,409,195)
Non-Operating revenues—	
Federal and state grants	463,006
Private Sources – National Heritage Academies, Inc.	945,819
Board Fund Transfer	(33,122)
Transfer from NHA	100
Federal and State Meal Subsidies	46,945
Total Non-Operating revenues	1,422,748
Change in net assets	\$ 13,553

As reported in the statement of revenues, expenses, and change in net assets, the cost of business-type activities was \$3,555,446. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. Revenues—Private sources—NHA represent a credit granted by NHA for the excess of Academy's expenses over public revenues available.

The Academy experienced an increase in net assets of \$13,553 in 2004. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

General Economic Factors

The Academy depends on legislative and governmental support to fund its operations. There is current litigation regarding the legality of Ohio's charter school program and its school funding plan. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the School in 2005.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste 201, Grand Rapids, Michigan 49512.

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**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

Assets

	<u>2004</u>
<u>Current Assets</u>	
Cash	\$30,508
Intergovernmental Receivable	780,504
Total Current Assets	<u>811,012</u>
 Total Assets	 <u>\$811,012</u>

Liabilities

<u>Current Liabilities</u>	
Due to National Heritage Academies, Inc.	\$782,478
Intergovernmental payable	14,981
Total Current Liabilities	<u>797,459</u>
 Total Liabilities	 <u>797,459</u>

Net Assets

Unrestricted	13,553
Total Net Assets	<u><u>\$13,553</u></u>

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

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>2004</u>
<u>Operating Revenues</u>	
Foundation payments	\$ 1,596,331
State special education program	62,211
DPIA	425,217
Other State Sources	57,000
Charges for Services	3,818
Other	1,673
Total Operating Revenues	<u>2,146,250</u>
<u>Operating Expenses</u>	
Contracted Services Fee	3,459,049
Fringe Benefits	96,396
Total Operating Expenses	<u>3,555,445</u>
Operating (Loss)	(1,409,195)
<u>Non-operating Revenues</u>	
Federal Grants	463,006
Board Fund Transfer	(33,122)
Transfer from National Heritage Academies, Inc. (NHA)	100
Private Sources - NHA	945,819
Federal and State Meal Subsidies	46,945
Total Non-Operating Revenues	<u>1,422,748</u>
Change in Net Assets	13,553
Net Assets Beginning of year	-
Net Assets End of year	<u>\$ 13,553</u>

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

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<i>Increase (Decrease) in Cash and Cash Equivalents:</i>	<u>2004</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from State of Ohio	\$ 1,715,543
Cash paid on behalf of the Academy for goods and services	(2,691,553)
Cash Payments for Fringe Benefits	(96,396)
Other Operating Expenses	(3,192)
Other Operating Revenue	<u>5,522</u>
Net Cash Used for Operating Activities	<u>(1,070,076)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Subsidies Received	38,510
Federal Grants Received	116,154
Support from Private Sources - NHA	945,819
Transfer from NHA	<u>100</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,100,583</u>
Net Increase in Cash and Cash Equivalents	30,508
Cash and Cash Equivalents at Beginning of Year	<u>0</u>
Cash and Cash Equivalents at End of Year	<u><u>\$30,508</u></u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating Loss	<u>(\$1,409,195)</u>
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>	
Changes in Assets and Liabilities:	
Accounts Payable	779,317
Intergovernmental Payable	(14,981)
Intergovernmental Receivable	<u>(425,217)</u>
Total Adjustments	<u>339,119</u>
Net Cash Used for Operating Activities	<u><u>(\$1,070,076)</u></u>

See accompanying notes to the basic financial statements

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**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

1. NATURE OF OPERATIONS

Alliance Academy of Cincinnati, Hamilton County, Ohio (the Academy), is a nonprofit corporation established pursuant to Ohio Rev. Code, Chapters 3314 and 1702 to address the needs of students in grades K through five. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. Alliance Academy qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

The Academy was incorporated on January 26, 2001 and began operations during the fiscal year ended June 30, 2004. There were no financial transactions prior to July 2003. The Academy operates under an approved charter received from the Ohio State Board of Education (the Sponsor), which is responsible for oversight of the Academy's operations. The Academy was approved for operation under contract with the Ohio State Board of Education through June 30, 2006. The Lucas County Educational Service Center will become sponsor effective for fiscal year 2007. The contract is renewable by the Sponsor.

The Academy operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract with the Sponsor 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 the Academy has entered into a management agreement (the agreement) with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The agreement will automatically renew on a year-to-year basis, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. NHA provides a spending account to the Board for discretionary expenditures on an annual basis. Revenues—private sources—NHA represent a contribution granted by NHA for the excess of Academy expenditures over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, and a Statement of Cash Flows.

The Academy uses enterprise accounting to maintain its financial records. Enterprise accounting focuses on the determination of changes in net assets, financial position and cash flows.

B. 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 Statement of Net Assets. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

E. Estimates

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

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash Deposits

For cash management, all cash received by the Chief Financial Officer is pooled in a non-interest bearing central bank account. Total cash for the Academy is presented as "cash" on the accompanying Statement of Net Assets. Cash as of June 30, 2004, represents bank deposits, which are covered by federal depository insurance.

The Academy had no investments during the fiscal year.

G. Operating Revenues and Expenses

Intergovernmental Revenues — The Academy 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 revenue in the accounting period in which all eligibility requirements have been met.

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

The Academy also participates in various federal and state programs through the Ohio Department of Education. The programs the Academy participated in during the fiscal year 2004, of which they were still owed for at June 30, 2004, include Title II and the Charter School Grant.

Due to National Heritage Academies, Inc. — This amount consists of payments due to National Heritage Academies, Inc. for management services rendered in fiscal year 2004.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At fiscal year end, the Academy had no restricted assets.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

3. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System — NHA on behalf of employees at the Academy, contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and NHA is required to contribute at an actuarially determined rate. The current NHA rate is 14% of annual covered payroll. A portion of NHA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. 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. NHA's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2004, were \$34,433, and 100% was contributed for fiscal year 2004.

B. State Teachers Retirement System — NHA, on behalf of employees at the Academy, participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad St., Columbus, Ohio 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 percent 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 DB 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.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. NHA was required to contribute 14%; 13% 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.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

3. DEFINED BENEFIT PENSION PLANS (Continued)

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2004, were \$75,612, and 100% was contributed for fiscal year 2004.

4. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired, non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. 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 Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14% of covered payroll. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid.

STRS Ohio 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, 2002, net health care costs paid by STRS Ohio were \$352.3 million and STRS Ohio had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than 25 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% of the premium.

SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the Academy, the amount to fund health care benefits, including the surcharge, was \$50,465 for fiscal year 2004.

5. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained through Indiana Insurance Company. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Indiana Insurance Company also provides umbrella liability coverage of \$2,000,000 per occurrence, as well as, in the aggregate.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

6. CONTINGENCIES

- A. Grants** — Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.
- B. State Funding** — The Ohio Department of Education conducts reviews of enrollment data and 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 results of this review could result in the State funding being adjusted. The Academy does not anticipate any material adjustments to State funding for fiscal year 2004, as a result of such a review.
- C. Litigation** — A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., 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 was set for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. No oral argument has been set to date. The effect of this suit, if any, on the Academy is not presently determinable.

7. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio State Supreme Court (the Court) reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Court has also directed the State to develop a new system of school funding. In 2003, the Ohio State Supreme Court and the U.S. Court of Appeals have declined to further consider the case. The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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

8. CONTRACTED SERVICE FEE

NHA has informed the Academy that the contracted service fee includes payment for the following:

Instruction:	
Basic instruction	\$1,256,789
Added needs	48,790
Special education	124,900
Support services:	
Pupil services	23,381
Instructional staff	109,999
Board of education	23,446
Executive administration	264,430
Office of the Principal	197,031
Business support services	44,022
Operations and maintenance	879,314
Central services	133,690
Food services	110,004
Miscellaneous	<u>243,254</u>
Total contracted service fee	<u><u>\$3,459,050</u></u>

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Auditor of State Betty Montgomery

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

Alliance Academy Of Cincinnati
Hamilton County
1712 Duck Creek Road
Cincinnati, Ohio 45207

To the Board of Directors:

We have audited the basic financial statements of Alliance Academy of Cincinnati, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated August 31, 2005, we reported other matters related to noncompliance we deemed immaterial.

Alliance Academy
Hamilton County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
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We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

August 31, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

ALLIANCE ACADEMY OF CINCINNATI

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 6, 2005**