Charter Schools Institute
State University of New York

SOUTH BUFFALO CHARTER SCHOOL

FINAL CHARTERED AGREEMENT

Sec. 2852(5) Submission to the Board of Regents

VOLUME 4 OF 6

REDACTED COPY

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Appendix T

Sample Lease Document

Sample form

LEASE

THIS LEASE ("Lease"), made the ____ day of _____, 19__,
between _____, a _____
("Landlord") and _____, a _____
("Tenant")

WITNESSETH:

1. Premises, Term, and Rent. Landlord leases to Tenant and Tenant leases from Landlord the space outlined in red on Exhibit A attached hereto (the "Premises") in the structure known as _____ and located at _____ in _____, _____ (the "Building"). The Premises contain approximately _____ square feet of the approximately _____ square feet contained in the Building as a whole. The term of this Lease shall be from the ____ day of _____, 19__ to the ____ day of _____, 19__, at an annual rental of $_____, payable in monthly installments of $_____ each, which rental Tenant covenants to pay as and when due. All monthly installments ("monthly rental") shall be paid in advance, on or before the last day of each month, without demand, to Landlord at the address set forth hereafter. If not paid when due said rental shall bear interest at the maximum legal contract rate. (Each period commencing on _____ and ending on the next _____ is referred to herein as a "Lease Year".)

Tenant agrees to pay to Landlord, when the first monthly rental installment is due hereunder, the additional sum of $_____ in payment of the last monthly rental installment due hereunder.

2. Appurtenances. Landlord grants to Tenant and covenants that Tenant shall have during the term of this Lease, at no additional cost to Tenant, the use of ___ parking spaces in the parking lot adjoining the Building, the non-exclusive use of any and all public restrooms, elevators, and common areas, and, for purposes of ingress and egress, of the area marked in green on Exhibit A.

3. Renewal Term(s). Provided Tenant is not then in default hereunder, Tenant may at its option renew this Lease for _____ successive _____ (_) year periods commencing on the ____ day of _____, 19__, on the ____ day of _____, 19__, and on the ____ day of _____ __, 19__, respectively, upon all terms, conditions, and obligations set forth herein except as provided in Section 4 hereof. Tenant shall provide Landlord with notice at least ninety (90) days before the expiration of the original term of this Lease and the first and second renewal terms respectively if it desires to exercise any of said options.

4. Renewal Rent. During said renewal terms Tenant shall pay an annual rental of $_____, $_____, and $_____, respectively in monthly installments of $_____, $_____ and $_____, respectively.

(a) Landlord and Tenant shall first attempt to agree, prior to ninety days before the expiration of the initial term (or any renewal term), on the annual rental to be paid during the next succeeding renewal term should Tenant exercise its option to renew. In the event Tenant and Landlord are unable to agree on such rental, if Tenant exercises its option, the annual rental that Landlord shall pay during such extended term shall be $_____ per year plus any increase as determined in accordance with the provisions of subdivision (b) of this Section.

(b)

(i) As promptly as practicable after the end of the initial term of this Lease (or the immediately preceding renewal term, as appropriate), Landlord shall compute the increase, if any, in the cost of living since the commencement of this Lease based upon the Consumer Price Index--United States (1982 = 100), All Urban Consumers (the "Index"), published by the Bureau of Labor Statistics of the United States Department of Labor.

(ii) The Index number for the month immediately preceding the commencement of this Lease, shall be the "base Index number", and the corresponding Index number for the first month of the renewal term in question shall be the "current Index number."

(iii) The current Index number shall be divided by the base Index number. From the quotient thereof, there shall be subtracted the number 1, and any resulting positive number multiplied by 100 shall be deemed to be the percentage of increase in the cost of living.

(iv) The percentage of increase multiplied by $_____ shall be the increase required to be determined by subdivision (a) of this Section.

(v) Landlord shall, within a reasonable time after obtaining the appropriate data necessary for computing such increase, give Tenant notice of any increase so determined, and Landlord's computation thereof shall be conclusive and binding (but shall not preclude any adjustment that may be required in the event of a published amendment of the Index figures upon which the computation was based) unless Tenant shall, within 60 days after the giving of such notice, notify Landlord of any claimed error therein.

(c) The annual rent, as so determined (i.e., the aggregate of $_____ and the "increase" calculated in accordance with subparagraphs (i) to (iv) of subdivision (b) of this Section, inclusive, shall be due and payable to Landlord in equal monthly installments commencing with the first month of the renewal term in question (any retroactive payments then due being payable within five days after giving of such notice), and in the event of any subsequent redetermination of such amount the adjustment thus indicated shall be made promptly between Landlord and Tenant.

(d) If publication of the Index shall be discontinued, the parties shall thereafter accept comparable statistics on the cost of living for the City of _____, Tennessee, they shall be computed and published by an agency of the United States or by a responsible financial periodical of recognized authority then to be selected by the parties. In the event of (1) use of comparable statistics in place of the Index as above mentioned, or (2) publication of the Index figure at other than monthly intervals, there shall be made in the method of computation herein provided such revisions as the circumstances may require to carry out the intent of this Section.

5. Additional Rent. For the purposes of this Section, the term "Base Year Expenses" shall mean the sum total of the following expenses attributable to the first Lease Year: All real estate taxes and special assessments levied on the property of which the Premises are a part, fire and casualty insurance premiums, utilities, and all expenses of maintaining and operating the property of which the Premises are a part to be borne by Landlord pursuant to Section 7. Tenant agrees to pay to Landlord as additional rent in all Lease Years after the first Lease Year, __% of the amount by which the sum of the foregoing expenses exceed Base Year Expenses.

Tenant's share of any increase in the aforementioned expenses shall be paid by Tenant annually within ten (10) days after Landlord presents Tenant a statement showing the total amount of such expenses for the preceding Lease Year and the increase in such expenses over Base Year Expenses. If such share is not paid when due it shall bear interest at the maximum legal contract rate until paid.

(a) For the purposes of this Section, the term "Base Year Taxes" shall mean the sum total of the real estate taxes and special assessments for the calendar year 19__, levied or imposed upon the Premises. Tenant agrees to pay to Landlord as additional rent _____ (%) of the amount by which the sum of the real estate taxes and special assessments for each of the years _____, levied or imposed upon the property of which the Premises are a part exceeds the Base Year Taxes. Tenant agrees to pay Landlord as additional rent _____ percent (__%) of the amount by which the sum of such real estate taxes and special assessments for the year 19__ exceeds the Base Year Taxes.

If there is an increase in the assessed value of the property of which the Premises are a part because of an improvement hereafter made by someone other than Tenant, then any increase in taxes attributable to such increase in assessed value shall not enter into the computation of the increase in taxes and assessments to be paid by Tenant.

Tenant's share of any increase in taxes and assessments shall be paid by Tenant annually within ten (10) days after presentation to Tenant by Landlord of the statement showing the total of the aforementioned taxes and assessments payable for the calendar year to which the statement relates and the increase over the Base Year Taxes.

(b) For the purposes of this Section the term "Base Year Insurance Premiums" shall mean the fire and extended coverage insurance premiums paid by Landlord on the Building [the Premises] for the calendar year 19__. For each calendar year from 19__ to 19__, Tenant agrees to pay to Landlord as additional rent ____% of the amount by which Landlord's fire and extended coverage insurance premiums exceed the Base Year Insurance Premiums. For the calendar year 19__, Tenant agrees to pay to Landlord as additional rent _____ percent (__%) of the amount by which such premiums exceed the Base Year Insurance Premiums. If any increase is due to the fault, negligence, or activities of Landlord [or of any other tenant in the Building besides Tenant] or to an increase in the amount of coverage above that reasonable to account for inflation, such increase shall not enter into the computation of the additional rent to be paid by Tenant.

Tenant's share of any increase in premiums shall be paid by Tenant annually within ten (10) days after presentation to Tenant by Landlord of a statement showing the total premiums paid during the calendar year in question and the increase over the Base Year Insurance Premiums.

Should Tenant exercise its option to renew this Lease, during the renewal term(s), this Section shall be amended so that wherever the year in the left hand column below appears, the year in the corresponding right hand column shall be substituted:

____	____
____	____
____	____
____	____
____	____

Operating Expenses shall not include expenses incurred in connection with capital improvements, except to the extent that capital improvements result in a decrease in Operating Expenses. Moreover, it is not intended that Tenant be required to pay its share of any increased tax assessments resulting from additional improvements constructed for other tenants in the Building after the Building has been fully completed and assessed.

Landlord shall be entitled to estimate the total amount of Additional Rent to be paid by Tenant during each Lease Year and, upon notice to Tenant of such estimate, to collect such estimate in twelve (12) equal installments, each such installment to be due and payable with each monthly rental installment payable under this Lease.

Within a reasonable time after the end of each Lease Year, Landlord shall submit to Tenant a statement of the actual amount of Operating Expenses and the Additional Rent due from Tenant hereunder for such Lease Year, and within thirty (30) days after receipt of such statement, Tenant shall pay the difference between the actual amount owed and the estimates paid during such Lease Year, or in the event of overpayment, Landlord shall credit the amount of such overpayment toward the next monthly rental installments. Tenant may review Landlord's records relating to Operating Expenses, at Tenant's expense, during normal business hours.]

6. Lessee's Repairs and Utilities. Tenant will keep the Premises, including without limitation, interior walls, floors, ceiling, and light fixtures, as clean and in as good repair as same are at the commencement of this term or may be put in during the continuance thereof, reasonable wear and tear and damage by fire, other casualty, or condemnation excepted, and will promptly replace all glass broken during the said term with glass of the same quality. Tenant shall procure its own janitorial and security alarm services.

Tenant shall be responsible for the payment of all bills and/or assessments for electrical, natural gas, water and sewer and other utilities serving the Premises. To the extent that Landlord shall be billed for any such services by the provider thereof Tenant shall reimburse Landlord for the amount thereof within fifteen (15) days of being furnished with a statement from Landlord with respect thereto. If the amount due as shown on such statement is not paid when due, it shall bear interest at the maximum legal contract rate until paid.

7. Lessor's Repairs. Landlord shall maintain and keep in good repair and working order the roof, exterior walls, sprinkler system, HVAC system, electrical wiring, and plumbing system of the Building, the adjoining yard and parking lot, and all underground water and sewerage pipes. Landlord will keep the Building insured against damage by fire and other casualty in an amount up to at least _____% of the Building's fair market value.

8. Right of Entry. Landlord may at reasonable times and on reasonable notice to Tenant enter the Premises to inspect them and make any repairs required by Section 7 or required by Section 6 that Tenant has failed to make, and during the ninety (90) days preceding the expiration of this Lease, may show the Premises to persons who may wish to lease same, provided Tenant's occupancy is not interfered with. If Landlord makes any repairs required to be made by Tenant under Section 6, Tenant shall pay Landlord as additional rent a sum equal to the amounts expended by Landlord plus interest thereon at the maximum legal contract rate within ten (10) days after Landlord presents Tenant with a statement setting forth the repairs made and the amounts expended.

9. Renovations and Alterations of Premises. Subject to Landlord's approval of all plans and specifications for material renovations and alterations and subject to the condition that Tenant shall allow no lien to be placed against the Premises, Tenant shall have the right, at its sole cost and expense, to renovate, alter, and use the Premises in connection with its business and to make related improvements. All alterations, additions, repairs, replacements and improvements made to or upon the Premises shall be deemed to be part of the Premises and shall become the property of Landlord upon the expiration or termination of this Lease; provided, however, that trade fixtures, machinery, and equipment that are installed by Tenant and removable without materially injuring the Premises shall remain the property of Tenant.

10. Fire or Other Casualty. If the Premises should be damaged or destroyed by fire or other casualty so as to cause a material alteration in the character of the Premises and to prevent Tenant from using them in substantially the manner theretofore used, either Landlord or Tenant may terminate this Lease upon giving notice to the other within fourteen (14) days after the casualty occurs. Should such termination occur on any day other than the last day of a monthly rental period, any unearned prepaid rental shall be refunded to Tenant.

If the Premises are materially damaged by fire or other casualty and neither party elects to terminate this Lease, or if the Premises should be damaged by fire or other casualty and still be fit for Tenant's continued use in

substantially the same manner as theretofore used, then this Lease shall continue in effect and the Premises shall be restored by Landlord. If the event causing damage was not caused by the fault of Tenant, while such restoration is in progress, Tenant shall be entitled to a fair and appropriate abatement of the rental to be paid, said abatement to be based on the amount and value of the Premises used by Tenant. Should the damage necessitating such restoration occur on any day other than the last day of a monthly rental period, then the amount of prepaid rental to be refunded to Tenant shall be based on the amount and value of undamaged space used by Tenant during the remainder of said monthly rental period.

11. Surrender of Premises. At the expiration of the term of this Lease, Tenant shall peaceably yield up to Landlord the Premises and all erections and additions made thereto except as hereinbefore provided, in good repair in all respects, reasonable use, wear and tear and damage by fire or other casualty or by condemnation excepted.

12. Holding Over. Should Tenant hold over the term hereby created with the consent of Landlord, Tenant shall become a tenant from month to month at the monthly rental then payable hereunder and otherwise upon the covenants and conditions in this Lease contained, and shall continue to be such tenant until thirty (30) days after either party serves upon the other notice of intention to terminate such monthly tenancy. Should such termination occur on any day other than the last day of any rental period, any unearned prepaid rent shall immediately following surrender of the Premises to the Landlord, be refunded to Tenant.

13. Use of Premises. The Premises shall be used only for _____ and related purposes. Tenant will not at any time use or occupy the Premises in violation of laws, ordinances, or regulations of any government or agency having jurisdiction or in violation of Landlord's insurance contract(s).

14. Insurance. All property of any kind that may at any time be used, left or placed on the Premises during the term of this Lease shall be at the sole risk of the Tenant. Tenant shall carry contents coverage insurance on its contents.

To the extent not covered by insurance, Tenant will save, indemnify and hold Landlord free and harmless from any and all liability or any injury, loss, or damage to person or property arising out of any cause associated with its business or use of the Premises, including its omission to act.

Tenant agrees to provide public liability insurance naming Landlord as additional insured to protect Landlord from loss customarily covered by such insurance in at least the following amount:

$_____ - Combined Single Limit

15. Quiet Enjoyment. As long as Tenant is not in default hereunder, Landlord covenants that Tenant shall peaceably hold and enjoy the Premises, subject to the terms of this Lease. All entrances, exits, approaches and means of entrance and approach, and all access to light and air now enjoyed by the Premises, shall be and remain intact and uninterrupted by any act of Landlord during the term of this Lease.

16. Eminent Domain. If the whole of the Premises shall be taken or condemned by any competent authority for any public use or purpose or if such portion thereof shall be taken or condemned as shall materially change the character of the Premises so as to prevent Tenant from using them in substantially the same manner as theretofore used, the term hereby granted shall cease on the day prior to the taking of possession by such authority or the day prior to vesting of title in such authority, whichever first occurs, and an appropriate pro rata portion of any rent paid in advance by Tenant shall be refunded.

If a portion of the Premises shall be condemned or taken, and if such taking does not result in a material alteration in the character of the Premises so as to prevent Tenant from using them in substantially the same manner as theretofore used, then this Lease shall continue in effect, and any damage to the Premises shall be

repaired by Landlord. After the date Tenant is required to surrender possession of the portion taken, the rental payable hereunder shall be reduced in proportion to the decrease in the fair rental value of the Premises.

If all or a portion of the adjoining parking area shall be condemned or taken so as to deprive Tenant of necessary parking or so as to in some other way materially affect the Tenant's ability to conduct its business, then Tenant may at its option cancel and terminate this Lease upon giving Landlord notice within thirty (30) days of such taking. In the event Tenant shall elect not to cancel and remain in possession and occupation of the Premises, however, the terms and conditions of this Lease shall remain in full force and effect.

The entire award of damages or compensation for a taking of the Premises, whether such taking be in whole or in part, shall belong to and be the property of Landlord, except for such compensation as may be made for Tenant's moving or relocation expenses, Tenant's business interruption losses, and for the taking of Tenant's trade fixtures, which compensation shall belong to and be the property of Tenant.

If the Premises shall be taken or condemned by any governmental authority for temporary use or occupancy, this Lease shall continue in full force and effect without reduction or abatement of rent, and the rights of the parties shall be unaffected by the other provisions of this Section. In the event of such temporary taking the entire award of damages in respect of the Premises shall belong to Tenant and Landlord assigns Tenant any and all interest it may have in such award. To the extent Tenant is prevented by such temporary taking or occupancy from fulfilling its obligations hereunder, Tenant's failure to do so shall not be deemed a default under this Lease.

17. Assignment and Subleasing. The Tenant may not assign or encumber this Lease or sublet the Premises, either in whole or in part, without the prior written consent of Landlord. Consent to one assignment or subletting will not be deemed a consent to any other. The transfer of the majority of the voting stock of Tenant if Tenant is a corporation, the transfer of a majority of the partnership interests in Tenant if Tenant is a partnership, and any transfer by operation of law will be deemed "assignments" requiring Landlord's consent. In the event of any assignment or subletting, Tenant shall remain fully responsible under this Lease.

18. Attorney's Fees. In the event it becomes necessary for Landlord to employ an attorney to enforce collection of the rents agreed to be paid, or to enforce compliance with any of the covenants or agreements herein contained, Tenant shall be liable for reasonable attorney's fees, costs and expenses incurred by the Landlord.

19. Notice. Any notices required to be sent hereunder shall be hand delivered or sent by certified mail to the following addresses:

LESSOR: _____
_____
_____

LESSEE: _____
_____
_____

20. Default and Remedies. Each of the following events shall constitute a default or breach of this Lease by Tenant:

(a) If Tenant, or any successor or assignee of Tenant while in possession, shall file petition in bankruptcy or insolvency or for reorganization under any bankruptcy act, or shall voluntarily take advantage of any such act or shall make assignment for the benefit of creditors.

(b) If involuntary proceedings under any bankruptcy laws or insolvency act shall be instituted against Tenant, or if a receiver or trustee shall be appointed for all or substantially all of the property of Tenant, and such proceedings shall not be dismissed or the receivership or trusteeship vacated within sixty (60) days after the institution or appointment.

(c) If Tenant shall fail to pay Landlord any rent or additional rent together with any interest thereon within (5) days after Landlord notifies Tenant that it is unpaid.

(d) If Tenant shall fail to perform or comply with any of the other conditions of this Lease within thirty (30) days after notice by Landlord to Tenant specifying the condition to be performed or complied with; or, if the performance cannot be reasonably had within the 30-day period, Tenant shall not in good faith have commenced performance within the 30-day period and shall not diligently proceed to completion of performance.

In the event of any default hereunder, Landlord at any time thereafter, may re-enter the Premises and expel, remove, and put out Tenant or any person or persons occupying the Premises and may remove all personal property therefrom. Upon re-entry Landlord may, at its option, relet the Premises or any part thereof as the agent of Tenant, and Tenant shall pay Landlord the difference between the rent hereby reserved for the portion of the term remaining at the time of re-entry and the amount received under such reletting for such portion of the term. Upon re-entry Landlord may at its option, terminate this Lease and at any time thereafter recover from Tenant all sums then due as well as the amount by which all rent and other payments to be made by Tenant exceed the reasonable rental value of the Premises for the remainder of the Lease term.

All actions taken by Landlord pursuant to this Section shall be without prejudice to any other remedies that otherwise might be used for the collection of arrears of rent or for the preceding breach of covenant or conditions.

Landlord may elect, but shall not be obligated, to comply with any condition, agreement, or term required hereby to be performed by Tenant, and Landlord shall have the right to enter the Premises for the purpose of correcting or remedying any such default and to remain until the default has been corrected or remedied, but any expenditure for such correction by Landlord shall not be deemed to waive or release the default of Tenant or the right of Landlord to take any action as may be otherwise permissible hereunder in the case of any default.

21. No Waiver. The subsequent acceptance of rent hereunder by Landlord shall not be deemed waiver of any preceding breach of any obligation hereunder by Tenant other than the failure to pay the particular rental so accepted, and the waiver of any breach of any covenant or condition by Landlord shall not constitute waiver of any other breach regardless of knowledge thereof.

22. Gender. Wherever appropriate herein, the words "Landlord" and "Tenant" and the pronouns referring thereto, shall be construed singular or plural, masculine, feminine or neuter as the facts warrant.

23. Broker. This lease has been negotiated through the agency of _____, agent for _____ ("Agent") and in consideration of the services rendered _____ by Agent, _____ agrees to pay Agent, its successors or assigns a leasing commission of _____ percent (___%) on all monthly rental paid under this lease and all renewals, holdovers or extensions thereof. Such commission shall be paid monthly, in advance, commencing _____, 199_.

Landlord and Tenant warrant that they have dealt with no other broker in connection with this Lease.

All obligations for such commissions shall terminate on the termination of this Lease. In other words, such commissions shall only be paid on monthly rental actually paid by Tenant.

24. Waiver of Subrogation. Landlord and Tenant hereby waive all rights of recovery and causes of action that either has or may have or that may arise hereafter against the other, whether caused by negligence, intentional misconduct, or otherwise, for any damage to premises, property or business caused by any perils covered by fire and extended coverage, building, contents, and business interruption insurance, or for which either party may be reimbursed as a result of insurance coverage affecting any loss suffered by it; provided, however, that the foregoing waivers shall apply only to the extent of any recovery made by the parties hereto under any policy of insurance now or hereafter issued, and further provided that the foregoing waivers shall be ineffective if they invalidate any policy of insurance of the parties hereto, now or hereafter issued. Landlord and Tenant will use their best efforts to have their respective insurance companies waive their rights of subrogation as contemplated herein.

25. Signs. Tenant shall have the right to erect, affix or paint signs on or about the Premises and the right at its option to remove said signs upon the termination of this Lease, it being agreed that Tenant shall repair any damage to the exterior of the Building caused by the removal of said signs.

26. Subordination. Upon written notice by Landlord to Tenant, this Lease shall be and become subject and subordinate to any and all [first] mortgages or deeds of trust now existing, or that hereafter may be executed, covering [the Building or] the Premises, for the full amount of all advances made or to be made thereunder and without regard to the time or character of such advances, together with interest thereon, and subject to all the terms and provisions thereof. Tenant agrees to execute, acknowledge and deliver upon request any and all documents or instruments requested by Landlord or necessary or proper to insure the subordination of this Lease to any such mortgages or deeds of trust; provided, however, that the foregoing provisions with respect to such subordination shall not be effective unless the owner or holder of any such mortgage or deed of trust shall execute with Tenant a non-disturbance and attornment agreement under which said owner or holder shall agree to accept the attornment of Tenant upon foreclosure of any such mortgage or deed of trust, if Tenant has not been in default. Tenant hereby agrees to attorn to any person, firm or corporation purchasing or otherwise acquiring [the Building or] the Premises at any sale or other proceeding or pursuant to the exercise of any other rights, power or remedies under such mortgages or deeds of trust, as if such person, firm, or corporation had been named as Landlord herein.

27. Estoppel Letters. Either party hereto shall at any time and from time to time upon not less than ten (10) days prior written notice from the other execute, acknowledge and deliver to the requesting party statement in writing certifying that this Lease is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect), and the dates to which the rental and other charges are paid in advance, if any, and acknowledging that there are not, to the certifying party's knowledge, any uncured defaults on the part of the other party hereunder, and that no event has occurred that, by the giving of notice or the passage of time or both, would constitute a default, or specifying such defaults or events if they are claimed. Any such statement requested by either party may be relied upon by any prospective purchaser or encumbrancer of [the Building or] the Premises. Failure of a party to deliver such statement within such time shall be conclusive upon such party that this Lease is in full force and effect, without modification, except as may be represented by the requesting party, that there are no uncured defaults in the requesting party's performance, and that not more than two months rental has been paid in advance.

28. Sale of Subject Property, Right of First Refusal. If at any time during the term of this Lease, Landlord desires to sell the Premises, it shall first offer it to Tenant and Tenant shall have 60 days within which to accept said offer. If Tenant declines to accept said offer or does not respond within 60 days, then Landlord shall be free to sell the Premises to others but not upon terms less favorable to Landlord than those offered to Tenant.

29. Lessee's Option to Purchase-- Terms of Sale . At the end of the term of this Lease, Tenant, upon giving not less than sixty (60) days' prior notice in writing to Landlord, shall have the right to purchase the Premises. The purchase price shall be the sum of _____ _ Dollars ($_____). If the option is exercised (i) the purchase price shall be paid at closing, which shall take place within thirty (30) days of the expiration of the term of this Lease; (ii) Tenant shall take title subject to the following exceptions: taxes for the current year , _____ _____ but Tenant shall not be obligated to take title subject to any other lien or other encumbrance; (iii) adjustment and prorations for taxes, utility charges, and insurance premiums are to be made as of the date of closing; (iv) the deed shall be a general warranty deed conveying marketable and insurable fee simple title to the Premises, subject only to the exceptions hereinabove referred to; (v) Landlord shall furnish Tenant an ALTA (Form B) Owner's Policy insuring title subject only to the foregoing exceptions and to such other exceptions as Tenant may waive in writing; and (vi) Landlord will pay all customary closing costs except that Tenant shall be responsible for recording costs and transfer taxes and its own attorney's fees.

30. Entire Agreement. The entire understanding between the parties is set out in this Lease, this Lease supersedes and voids all prior proposals, letters and agreements, oral or written, and no modification or alteration of this Lease shall be effective unless evidenced by an instrument in writing signed by both parties. The law of the State of _____ shall be applicable.

31. Heirs, Successors, and Assigns. All the terms, covenants, and conditions hereof shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors, and assigns of the parties hereto.

32. Memorandum Lease. This Lease shall not be recorded, but, upon the request of either party, a short form lease will be executed and recorded.

IN WITNESS WHEREOF, the parties hereto have set their respective hands or caused this instrument to be duly executed on or as of the day and date first above written.

LESSOR:

_____

By:_____
Title:_____

LESSEE:

_____

By:_____
Title:_____

INNOVATIVE PROGRAM
FEB 0 4 2000

Application Name: South Buffalo

Vol 2 (1 of 1)

Control # 467

For internal use only

Total 2 Books

UNREDACTED

BEACON
Education Management

January 10, 2000

Mr. Bob Bellafiore
Executive Director
Charter Schools Institute
330 Broadway
2nd Floor
Albany, NY 12207

Dear Mr. Bellafiore:

The Board of Trustees for the South Buffalo Charter School has asked that I forward the enclosed amendments to the application.

Please do not hesitate to contact us if we can be of further assistance.

Sincerely,

Bill Phillips
Business Development Director – Eastern Region
Beacon Education Management

cc: Board of Trustees, SBCS

RECEIVED

112 Turnpike Rd
Westborough, MA 01581

Phone 508-836-4461
Fax 508-836-2604

Email:
bphillips@beaconedu.com

Responses to Request for Amendment
of the
South Buffalo Charter School Application
(January 11, 2000)

Amendment to Attachments I-4, 5 (for-profit partner)

Please provide the following information or documents regarding Beacon Education Management LLC. (Beacon) to the extent not already provided to the Charter Schools Institute:

a. *certificate of incorporation, evidence of authorization to do business in New York State, full legal name, and address of the entity's principal place of business;*

Beacon Education Management, Inc. has applied for authorization to do business in New York State, and will forward the documentation upon receipt.

Beacon Education Management, Inc.
112 Turnpike Road
Suite 107
Westborough, MA 01581

b. *by-laws;*

Please see the attached documents.

c. *federal and state tax returns for the previous two years;*

Due to its concerns about confidential documents being released under FOIA, Beacon Education Management respectfully requests an alternative means to provide the requested information. Beacon is willing to show the requested documents to officials of the Charter Schools Institute or SUNY. Beacon will also provide a statement of its financial status from an independent accounting firm.

d. *audited financial statements for the previous two years including all letters to management;*

Due to its concerns about confidential documents being released under FOIA, Beacon Education Management respectfully requests an alternative means to

provide the requested information. Beacon is willing to show the requested documents to officials of the Charter Schools Institute or SUNY. Beacon will also provide a statement of its financial status from an independent accounting firm.

e. *description of any and all debt or equity offerings (whether or not registered) by Beacon or any its subsidiaries made during the previous three years together with any and all offering memoranda and prospectuses associated with such offers as well as any filings with the Securities and Exchange Commission;*

Due to its concerns about confidential documents being released under FOIA, Beacon Education Management respectfully requests an alternative means to provide the requested information. Beacon is willing to show the requested documents to officials of the Charter Schools Institute or SUNY. Beacon will also provide a statement of its financial status from an independent accounting firm.

f. *if the school intends to enter into a formal contractual relationship with Beacon under which the latter will provide management services to the former, a draft of such contract or agreement;*

Please see the attached documents. Please note that the proposal still requires review by counsel to the Board and approval of the Board.

g. *background information regarding any charter school that Beacon has created, sponsored or managed, including*

i. *the names and addresses of those charter schools*

Please see the attached documents at the end of the response. It should be noted that Beacon Education Management, Inc. purchased 100% ownership of JCR Associates and Beacon of Michigan in December 1999. The relevant schools are listed in the attached document under the heading "Beacon Education Management – Michigan, Inc."

ii. *evidence regarding the on-going fiscal stability of each of those schools*

Please see the attached documents at the end of the response. It should be noted that financial audits have not yet been performed for schools that opened in September 1999.

iii. *the educational performance of the students in each of those charter schools for the past three years, with the achievement data disaggregated by the categories of gender, free/reduced lunch, special education, limited English proficiency, and at-risk*

Due to the time constraints of this request, it is not possible to provide disaggregated performance data in the manner requested. This is particularly true for the recently acquired schools in Michigan. All available performance and student profile data has been attached to the end of the response document. It should be noted that performance data is not yet available for schools that opened in September 1999.

Please note that Beacon is currently correlating the MEAP data with the independent standardized test data at its Michigan schools. It is estimated that this correlation will take approximately 45 days. Beacon is willing to forward this additional data to the Charter Schools Institute upon receipt.

iv. college-placement rates for the past three years

Not applicable. Beacon does not yet provide full management services to schools with college graduates.

v. whether any such charter has been revoked or the school placed on probation or otherwise disciplined

No schools managed by Beacon have experienced a charter revocation.

The Engelman School of Arts and Sciences in Claremont, NC was placed on probation for problems associated with low enrollment. This problem has since been remedied.

vi. whether any lawsuits have been filed against the school and/or Beacon for education or fiscal mismanagement, constitutional and other civil rights violations, criminal acts, providing in each instance the status of such suit and copies of all pleadings, motions and supporting legal memoranda served and/or filed by any party to such suit (except for such documents as relate to discovery issues and disputes).

To the best of the company's knowledge, none of the actions mentioned above have occurred at a Beacon managed school.

vii. whether any such charter school closed, and, if so, the reason for such closure

No schools operated by Beacon have closed.

viii. whether Beacon has been denied the ability to conduct business in any state and, if so, the reason for such denial.

Beacon has not been denied the ability to conduct business in any state.

h. *information regarding Beacon's relationship with other public or non-public schools in either New York or other states including such information as requested in subparts (i-viii) of the immediately preceding request for amendment;*

Please see attached documents regarding Beacon's relationship with the Wilkinsburg, PA School District and The Thomas Jefferson Charter School.

i. *number of charter or other schools that Beacon anticipates opening in Fall 2000 both in New York and other states.*

Beacon Education Management, Inc. estimates that it will open the following number of schools in Fall 2000:

New York – 2 schools (plus plans to submit 1 additional application to the Board of Regents)

Pennsylvania – 1 school

Missouri – 3 schools

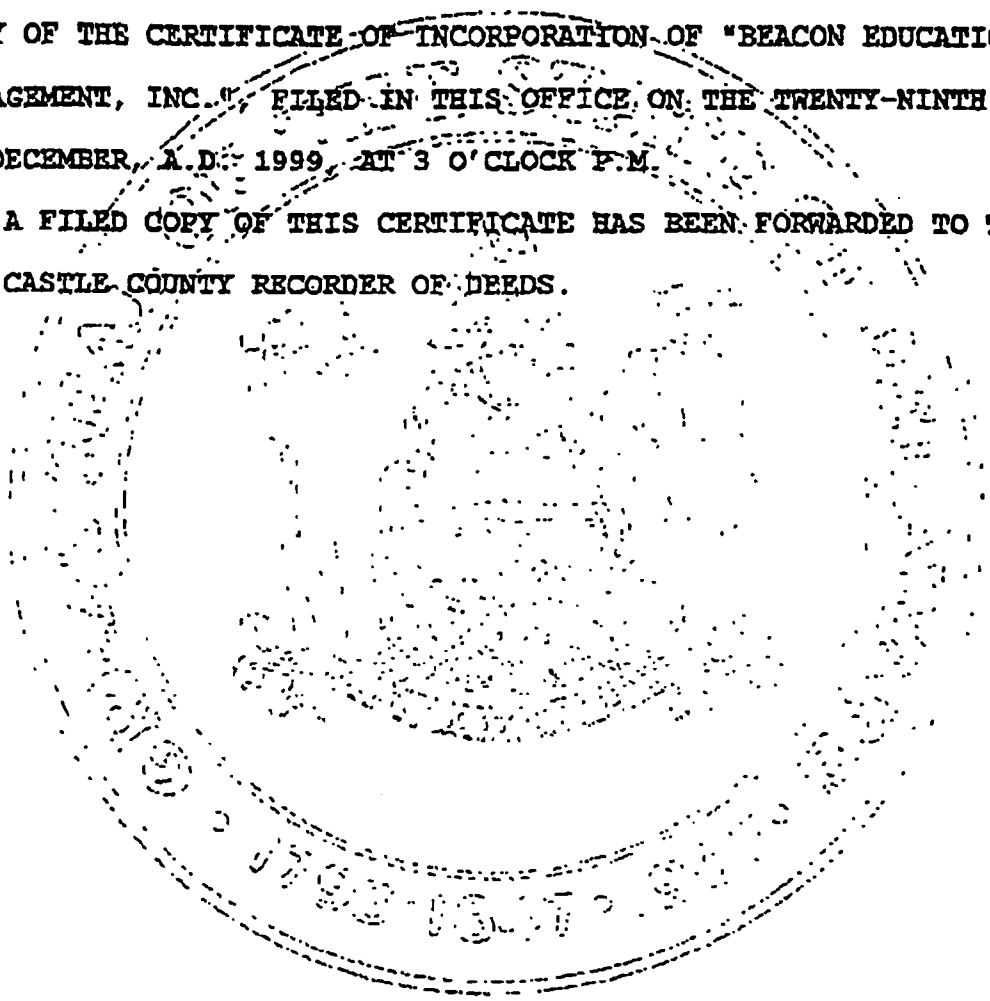
Massachusetts – 1 school

Office of the Secretary of State

617

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "BEACON EDUCATION MANAGEMENT, INC.", FILED IN THIS OFFICE ON THE TWENTY-NINTH DAY OF DECEMBER, A.D. 1999, AT 3 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.



Edward J. Freel, Secretary of State

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991567490

AUTHENTICATION: 0171913

DATE: 12-30-99

shall be entitled to one vote, in person or by proxy, for each duly authorized, issued and outstanding share of Common Stock held by them upon each question or matter in respect of which such holders are entitled to vote.

B. Preferred Stock. Authority is hereby expressly granted to the Board of Directors to issue, from time to time, shares of Preferred Stock in one or more series, and to fix by resolution or resolutions providing for the establishment and/or issuance of any series of Preferred Stock, the designation of such series and the preferences, limitations and relative rights of the shares of such series, including the following:

(i) The distinctive designation and number of shares comprising such series, which number may (except where otherwise provided by the Board of Directors in creating such series) be increased or decreased (but not below the number of shares then outstanding) from time to time by action of the Board of Directors;

(ii) The voting rights, if any, which shares of that series shall have, which may be special, conditional, limited or otherwise;

(iii) The rate of dividends, if any, on the shares of that series, whether dividends shall be non-cumulative, cumulative to the extent earned, partially cumulative or cumulative (and, if cumulative, from which date or dates), whether dividends shall be payable in cash, property or rights, or in shares of the Corporation's capital stock, and the relative rights of priority, if any, of payment of dividends on shares of that series over shares of any other series or over the Common Stock;

(iv) Whether the shares of that series shall be redeemable and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, the event or events upon or after which they shall be redeemable, whether they shall be redeemable at the option of the Corporation, the shareholder or another person, the amount per share payable in case of redemption (which amount may vary under different conditions and at different redemption dates), whether such amount shall be a designated amount or an amount determined in accordance with a designated formula or by reference to extrinsic data or events and whether such amount shall be paid in cash, indebtedness, securities or other property or rights, including securities of any other corporation;

(v) Whether the series shall have a sinking fund for the redemption or purchase of shares of that series and, if so, the terms of and amount payable into such sinking fund;

(vi) The rights to which the holders of the shares shall be entitled in the event of voluntary or involuntary dissolution or liquidation of the Corporation, and the relative rights of priority, if any, of payment of shares of that series over shares of any other series or over the Common Stock in any such event;

(vii) Whether the shares of that series shall be convertible into or exchangeable for cash, shares of stock of any other class or any other series, indebtedness, or other property or rights, including securities of another corporation, and if so, the terms and conditions of such conversion or exchange, including the rate or rates of conversion or exchange, and whether such rate shall be a designated amount or an amount determined in accordance with a designated formula or by reference to extrinsic data or events, the date or dates upon or after which they shall be convertible or exchangeable, the duration for which they shall be convertible or exchangeable, the event or events upon or after which they shall be convertible or exchangeable, and whether they shall be convertible or exchangeable at the option of the Corporation, the shareholder or another person, and the method (if any) of adjusting the rate of conversion or exchange in the event of a stock split, stock dividend, combination of shares or similar event;

(viii) Whether the issuance of any additional shares of such series, or of any shares of any other series, shall be subject to restrictions as to issuance, or as to the powers, preferences or rights of any such other series; and

(ix) Any other preferences, privileges and powers and relative, participating, optional or other special rights and qualifications, limitations or restrictions of such series, as the Board of Directors may deem advisable and as shall not be inconsistent with the provisions of this ARTICLE FOUR and to the full extent now or hereafter permitted by the laws of the State of Delaware.

Before issuing any shares of a series of Preferred Stock, the Corporation shall deliver to the Secretary of State for filing Articles of Amendment, which shall be effective without shareholder action (except as limited by the terms of this Charter), that set forth (a) the name of the Corporation, (b) the text of the amendment determining the terms of the series, (c) the date it was adopted and (d) a statement that the amendment was duly adopted by the Board of Directors.

ARTICLE FIVE

The name and mailing address of the sole incorporator is:

Howard H. Lamar III
Bass, Berry & Sims PLC
2700 First American Center
Nashville, TN 37238-2700

ARTICLE SIX

The Corporation is to have perpetual existence.

ARTICLE SEVEN

In furtherance and not in limitation of the powers conferred by statute, the board of directors of the Corporation is expressly authorized to make, alter or repeal the by-laws of the corporation.

ARTICLE EIGHT

Meetings of stockholders may be held within or outside of the State of Delaware, as the by-laws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the by-laws of the Corporation. Election of directors need not be by written ballot unless the by-laws of the Corporation so provide.

ARTICLE NINE

To the fullest extent permitted by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended, a director of this Corporation shall not be liable to the Corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director. Any repeal or modification of this ARTICLE NINE shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE TEN

The Corporation expressly elects not to be governed by §203 of the General Corporation Law of the State of Delaware.

ARTICLE ELEVEN

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed herein and by the laws of the State of Delaware, and all rights conferred upon stockholders herein are granted subject to this reservation.

I, Howard H. Lamar III, being the incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the Delaware General Corporation Law, do make this certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 29th day of December, 1999.

Howard H. Lamar III, Sole Incorporator

APPLICATION FOR AUTHORITY

OF

BEACON EDUCATION MANAGEMENT, INC.

(Pursuant to Section 1304 of the Business Corporation Law)

FIRST: The name of the corporation is Beacon Education Management, Inc.

SECOND: The jurisdiction of incorporation of the corporation is Delaware.

The date of incorporation of the corporation is December 29, 1999.

THIRD: The business which the corporation proposes to do in the State of New York is as follows:

> To engage in any act or activity for which corporations may be organized under the Business Corporation Law of the State of New York, provided that the corporation is not to engage in any act or activity requiring the consent or approval of any state official, department, board, agency or other body without such consent or approval first being obtained.

FOURTH: The office of the corporation in the State of New York is to be located in the County of New York.

FIFTH: The Secretary of State of the State of New York is designated as the agent of the corporation upon whom process against the corporation may be served. The post office address within the State of New York to which the Secretary of State of the State of New York shall mail a copy of any process against the corporation served upon said Secretary of State is c/o CT Corporation, 111 Eighth Avenue, New York, New York 10011.

SIXTH: The corporation hereby appoints CT Corporation System 111 Eighth Avenue, New York, New York 10011, as its registered agent in New York upon whom process against it may be served.

SEVENTH: The corporation has not, since its incorporation, engaged in any activity in the State of New York.

IN WITNESS WHEREOF, I have subscribed this document on the date set forth below and do hereby affirm, under the penalties of perjury, that the statements contained therein have been examined by me and are true and correct.

Executed on this 7th day of January, 2000.

WR DeLoache Jr.

William R. DeLoache, Chairman

APPLICATION FOR AUTHORITY

OF

BEACON EDUCATION MANAGEMENT, INC.

(Pursuant to Section 1304 of the Business Corporation Law)

Filer:

Name
Address

Full legal name:	Beacon Education Management, Inc.
Address of Principal Place of Business:	112 Turnpike Road Suite 107 Westborough, Ma 01581

BY-LAWS
OF
BEACON EDUCATION MANAGEMENT, INC.

A Delaware corporation

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of the corporation in the State of Delaware shall be located at 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the corporation's registered agent at such address shall be The Corporation Trust Company. The registered office and/or registered agent of the corporation may be changed from time to time by action of the board of directors.

Section 2. Other Offices. The corporation may also have offices at such other places, both within and without the State of Delaware, as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings. All meetings of the stockholders for the election of directors shall be held at such place as may be fixed from time to time by the board of directors, within or without the State of Delaware, and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. Annual meetings of stockholders shall be held at such date and time as shall be designated from time to time by the board of directors. To be properly brought before an annual meeting business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a stockholder. The board of directors shall, if the facts warrant, determine and declare to the meeting that the business was not properly brought before the meeting in accordance with the provisions of this Section 2, and if the board of directors should so determine, shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 3. Special Meetings. Special meetings of shareholders may be called for any purpose or purposes by the board of directors, and shall be called by the Board of Directors if the holders of at least twenty-five percent (25%) of all the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting who sign, date and deliver to the Corporation's secretary one or more written demands for the meeting. Such demand or demands must describe the purpose or purposes for which the meeting is to be held. The special meeting shall be held at such time and place, either within or without the State of Delaware, as is designated in the call of the meeting by the board of directors. The board of directors shall fix the record date (which shall be a future date) for a special meeting. If the meeting is to be called by the board of directors pursuant to demands delivered by the holders of at least twenty-five percent (25%) of all votes entitled to be cast on any issue proposed to be considered at the proposed special meeting, then, within 20 days after the date on which such demands are received, the board of directors shall fix the record date. If no record date has been fixed by the board of directors within 20 days of the date on which such demands are received, the record date for the special meeting shall be the thirtieth day after the date on which such demands are received.

Any shareholder of record seeking to join with other shareholders in demanding a special meeting shall, by written notice to the secretary, request the board of directors to fix a record date to determine the shareholders entitled to demand a special meeting. The board of directors shall promptly, but in all events within 15 days after the date on which such a request is received, adopt a resolution fixing the record date to determine the shareholders entitled to demand a special meeting, which record date shall not exceed 30 days from the date on which the request was received. If no record date has been fixed by the board of directors within 15 days of the date on which such a request is received, the record date for the determination of shareholders entitled to demand a special meeting shall be thirtieth day after the date on which such request was received.

Section 4. Notice of Meetings. Written notice of the annual meeting of stockholders or a special meeting of stockholders stating the place, date and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting was called, shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting. All such notices shall be delivered, either personally or by mail, by or at the direction of the board of directors, and if mailed, such notice shall be deemed to be delivered when deposited in the United States mail, postage prepaid, addressed to the stockholder at his, her or its address as the same appears on the records of the corporation. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Section 5. Stockholders List. The Secretary of the corporation shall make, at least ten (10) days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at such meeting arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting. The list shall also be

produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 6. Quorum. The holders of a majority of the outstanding shares of capital stock entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders, except as otherwise provided by statute or by the certificate of incorporation. If a quorum is not present, the holders of a majority of the shares of capital stock present in person or represented by proxy at the meeting, and entitled to vote at the meeting, may adjourn the meeting to another time and/or place. When a quorum is once present to commence a meeting of stockholders, it is not broken by the subsequent withdrawal of any stockholders or their proxies.

Section 7. Adjourned Meetings. When a meeting is adjourned to another time and place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 8. Vote Required. When a quorum is present, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, unless the question is one upon which by express provisions of an applicable law or of the certificate of incorporation a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 9. Voting Rights. Except as otherwise provided by the General Corporation Law of the State of Delaware or by the certificate of incorporation of the corporation or any amendments thereto and subject to Section 3 of Article VI hereof, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock held by such stockholder.

Section 10. Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him or her by proxy, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period.

Section 11. Action by Written Consent. Unless otherwise provided in the certificate of incorporation, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken and bearing the dates of signature of the stockholders who signed the consent or consents, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were

present and voted and shall be delivered to the Secretary of the corporation. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the corporation. Any action taken pursuant to such written consent or consents of the stockholders shall have the same force and effect as if taken by the stockholders at a meeting thereof.

Section 12. Advance Notice of Shareholder Proposals. At any annual or special meeting of shareholders, proposals by shareholders and persons nominated for election as directors by shareholders shall be considered only if advance notice thereof has been timely given as provided herein and such proposals or nominations are otherwise proper for consideration under applicable law and the Certificate of Incorporation and Bylaws of the Corporation. Notice of any proposal to be presented by any shareholder or of the name of any person to be nominated by any shareholder for election as a director of the Corporation at any meeting of shareholders shall be delivered to the secretary of the Corporation at its principal executive office not less than 60 nor more than 90 days prior to the date of the meeting; provided, however, that if the date of the meeting is first publicly announced or disclosed (in a public filing, if applicable, or otherwise) less than 70 days prior to the date of the meeting, such notice shall be given not more than ten days after such date is first so announced or disclosed. Public notice shall be deemed to have been given more than 70 days in advance of the annual meeting if the Corporation shall have previously disclosed, in these Bylaws or otherwise, that the annual meeting in each year is to be held on a determinable date, unless and until the board of directors determines to hold the meeting on a different date. Any shareholder who gives notice of any such proposal shall deliver therewith the text of the proposal to be presented and a brief written statement of the reasons why such shareholder favors the proposal and setting forth such shareholder's name and address, the number and class of all shares of each class of stock of the Corporation beneficially owned by such shareholder and any material interest of such shareholder in the proposal (other than as a shareholder). Any shareholder desiring to nominate any person for election as a director of the Corporation shall deliver with such notice a statement in writing setting forth the name and address of the person to be nominated, the number and class of all shares of each class of stock of the Corporation beneficially owned by such person and such person's signed consent to serve as a Director of the Corporation if elected. As used herein, shares "beneficially owned" shall mean all shares as to which such person, together with such person's affiliates and associates (as defined in Rule 12b-2 under the Securities Exchange Act of 1934), may be deemed to beneficially own pursuant to Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, as well as all shares as to which such person, together with such person's affiliates and associates, has the right to become the beneficial owner pursuant to any agreement or understanding, or upon the exercise of warrants, options or rights to convert or exchange (whether such rights are exercisable immediately or only after the passage of time or the occurrence of conditions). The person presiding at the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall determine whether such notice has been duly given and shall direct that proposals and nominees not be considered if such notice has not been given.

ARTICLE III

DIRECTORS

Section 1. General Powers. The business and affairs of the corporation shall be managed by or under the direction of the board of directors.

Section 2. Number, Election and Term of Office. The number of directors which shall constitute the first board shall be no fewer than one (1) and no more than ten (10). Thereafter, the number of directors shall be established from time to time by resolution of the board of directors, subject to any contractual limitations established by the certificate of incorporation or any stockholders agreement then in effect by and among the corporation and any of its stockholders (the "Stockholders Agreement"). Except as otherwise provided in the certificate of incorporation, the directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote in the election of directors. The directors shall be elected in this manner at the annual meeting of the stockholders, except as provided in Section 4 of this Article III. Each director elected shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided. The provisions contained in this Article III shall be subject to the terms and conditions of the Stockholders Agreement and the certificate of incorporation.

Section 3. Removal and Resignation. Subject to any applicable provisions of the certificate of incorporation or Stockholders Agreement, any director or the entire board of directors may be removed at any time, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors. Whenever the holders of any class or series are entitled to elect one or more directors by the provisions of the certificate of incorporation or the Stockholders Agreement, the provisions of this section shall apply, with respect to the removal without cause of a director or directors so elected, to the vote of the holders of the outstanding shares of that class or series and not to the vote of the outstanding shares as a whole. Any director may resign at any time upon written notice to the corporation.

Section 4. Vacancies. Subject to the provisions of the certificate of incorporation or Stockholders Agreement, vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the board of directors then in office or by a majority of the shares then entitled to vote at an election of directors and in accordance with the certificate of incorporation or Stockholders Agreement. Each director so chosen shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as herein provided.

Section 5. Annual Meetings. The annual meeting of each newly elected board of directors shall be held (without other notice than this by-law) immediately after, and at the same place as, the annual meeting of stockholders.

Section 6. Other Meetings and Notice. Regular meetings, other than the annual meeting, of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by resolution of the board. Special meetings of the board of directors may be called by or at the request of the Chief Executive Officer, President or Secretary of the

corporation without notice and in like manner and on like notice on the written request of two (2) directors.

Section 7. Quorum, Required Vote and Adjournment. Each director shall be entitled to one vote except as otherwise provided in the certificate of incorporation. Directors then in office (and specifically excluding any vacancies) and holding a majority of the votes of all directors (or such greater number required by applicable law) shall constitute a quorum for the transaction of business. The vote of directors holding a majority of votes present at a meeting at which a quorum is present shall be the act of the board of directors. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 8. Committees. Subject to any applicable provisions of the Stockholders Agreement, the board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation, which to the extent provided in such resolution or these by-laws shall have and may exercise the powers of the board of directors in the management and affairs of the corporation except as otherwise limited by law. The board of directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

Section 9. Committee Rules. Each committee of the board of directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by a resolution of the board of directors designating such committee.

Section 10. Communications Equipment. Members of the board of directors or any committee thereof may participate in and act at any meeting of such board or committee through the use of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in the meeting pursuant to this section shall constitute presence in person at the meeting.

Section 11. Waiver of Notice and Presumption of Consent. Any member of the board of directors or any committee thereof who is present at a meeting shall be conclusively presumed to have waived notice of such meeting except when such member attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Such member shall be conclusively presumed to have consented to any action taken unless his or her dissent shall be entered in the minutes of the meeting or unless his or her written dissent to such action shall be filed with the person acting as the secretary of the meeting before the adjournment thereof or shall be forwarded by registered mail to the Secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to any member who voted in favor of such action.

Section 12. Action by Written Consent. Unless otherwise restricted by the certificate of incorporation, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

ARTICLE IV

OFFICERS

Section 1. Number. The officers of the corporation shall be elected by the board of directors and may consist of a chief executive officer, president, any number of vice presidents, a secretary, a chief financial officer, any number of assistant secretaries and such other officers and assistant officers as may be deemed necessary or desirable by the board of directors. Any number of offices may be held by the same person. In its discretion, the board of directors may choose not to fill any office for any period as it may deem advisable, except that the offices of chief executive officer, president and secretary shall be filled as expeditiously as possible.

Section 2. Election and Term of Office. The officers of the corporation shall be elected annually by the board of directors at its first meeting held after each annual meeting of stockholders or as soon thereafter as conveniently may be. Vacancies may be filled or new offices created and filled at any meeting of the board of directors. Each officer shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. Removal. Any officer or agent elected by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4. Vacancies. Any vacancy occurring in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the board of directors for the unexpired portion of the term by the board of directors then in office.

Section 5. Compensation. Compensation of all officers shall be fixed by the board of directors, and no officer shall be prevented from receiving such compensation by virtue of his or her also being a director of the corporation.

Section 6. Chairman of the Board of Directors. The Chairman of the Board of Directors shall (i) be chosen from among the members of the board of directors, (ii) be primarily responsible for implementing the policies and directives of the board of directors, (iii) preside at all meetings of the board of directors and stockholders and (iv) perform such other duties as may be prescribed by the board of directors.

Section 7. Chief Executive Officer. The Chief Executive Officer shall, subject to the powers of the board of directors, be in the general and active charge of the entire business and affairs of the corporation, and shall be its chief policy making officer. Whenever the President is unable to serve, by reason of sickness, absence or otherwise, the Chief Executive Officer shall perform all the duties and responsibilities and exercise all the powers of the President.

Section 8. President. The President of the corporation, subject to the powers of the board of directors and the Chief Executive Officer, shall have general charge of the business affairs and property of the corporation, and control over its officers, agents and employees, and shall see that all orders and resolutions of the board of directors are carried into effect. The President shall execute bonds, mortgages and other contracts which the board of directors have authorized to be executed, except where required or permitted by law to be otherwise signed and executed or except where the signing and execution thereof shall be expressly delegated by the board of directors to some other officer or agent of the corporation. The President shall have such other powers and perform such other duties as may be prescribed by the Chief Executive Officer, the board of directors or as may be provided in these By-laws. The offices of President and Chief Executive Officer may be held by a single individual.

Section 9. Chief Financial Officer. The Chief Financial Officer of the corporation shall, under the direction of the Chief Executive Officer, be responsible for all financial and accounting matters of the corporation; and shall render to the Chief Executive Officer, the President and the board of directors, at its regular meeting or when the board of directors so requires, an account of the corporation. The Chief Financial Officer shall have such other powers and perform such other duties as may be prescribed by the Chief Executive Officer, the President or the board of directors or as may be provided in these By-laws.

Section 10. Vice-Presidents. The Vice-President, or if there shall be more than one, the Vice-Presidents in the order determined by the board of directors, shall, in the absence or disability of the President and the Chief Executive Officer, act with all of the powers and be subject to all the restrictions of the President. The Vice-Presidents shall also perform such other duties and have such other powers as the board of directors, the Chief Executive Officer, the President or these By-laws may, from time to time, prescribe.

Section 11. The Secretary and Assistant Secretaries. The Secretary shall attend all meetings of the board of directors, all meetings of the committees thereof and all meetings of the stockholders and record all the proceedings of the meetings in a book or books to be kept for that purpose. Under the Chief Executive Officer's supervision, the Secretary shall give, or cause to be given, all notices required to be given by these by-laws or by law; shall have such powers and perform such duties as the board of directors, the Chief Executive Officer, the President or these by-laws may, from time to time, prescribe; and shall have custody of the corporate seal of the corporation. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the board of directors, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the board of directors, the Chief Executive Officer, the President or the Secretary may, from time to time, prescribe.

Section 12. The Treasurer and Assistant Treasurer. The Treasurer shall have the custody of the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation; shall deposit all monies and other valuable effects in the name and to the credit of the corporation as may be ordered by the board of directors; shall cause the funds of the corporation to be disbursed when such disbursements have been duly authorized, taking proper vouchers for such disbursements; shall render to the Chief Executive Officer, the President and the board of directors, when the board of directors so requires, an account of the of all his actions as Treasurer and of the financial condition of corporation; and shall have such powers and perform such duties as the board of directors, the Chief Executive Officer, the President or these by-laws may, from time to time, prescribe. If required by the board of directors, the Treasurer shall give the corporation a bond (which shall be rendered every six (6) years) in such sums and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of the office of Treasurer and for the restoration to the corporation, in case of death, resignation, retirement, or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in the possession or under the control of the Treasurer belonging to the corporation. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the board of directors, shall in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer. The Assistant Treasurers shall perform such other duties and have such other powers as the board of directors, the Chief Executive Officer, the President or Treasurer may, from time to time, prescribe.

Section 13. Other Officers, Assistant Officers and Agents. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these By-laws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the board of directors.

Section 14. Absence or Disability of Officers. In the case of the absence or disability of any officer of the corporation and of any person hereby authorized to act in such officer's place during such officer's absence or disability, the board of directors may by resolution delegate the powers and duties of such officer to any other officer or to any director, or to any other person whom it may select.

ARTICLE V

INDEMNIFICATION

Section 1. Indemnity for Third Party Actions. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, member, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (collectively, "Losses") actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner reasonably believed to be within the scope of the authority conferred on such person by the Corporation or such other entity, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful, except that a person shall not be indemnified for any such Losses incurred by reason of such person's gross negligence, willful misconduct or breach of an agreement by such person with the Corporation. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contenders or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interest of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

Section 2. Indemnity for Action by or in Right of Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer or member of another Corporation, partnership, joint venture, trust or other enterprise, against Losses actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner reasonably believed to be within the scope of the authority conferred on such person by the Corporation or such other entity, except that a person shall not be indemnified for any such Losses incurred by reason of such person's gross negligence, willful misconduct or breach of an agreement by such person with the Corporation, and except that no such indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of Delaware or the court in which such suit or action was brought shall be determined upon application that, despite the adjudication of liability but in consideration of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

Section 3. Employees. The Corporation may, to the extent deemed advisable by the board of directors, indemnify any person who is or was an employee or agent (other than a

director or officer) of the Corporation if such person would be entitled to such indemnity under the provisions of Section 1 or 2 if such person had been a director or officer of the Corporation.

Section 4. Procedure for Indemnity. Any indemnification to be provided under Section 1, 2 or 3 of this Article V (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, member, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in Sections 1 and 2. Such determination shall be made (1) by a majority vote of directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (3) by the stockholders.

Section 5. Expenses. Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding unless otherwise determined by the board of directors in the specific case, upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article V. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

Section 6. Article Not Exclusive. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article V shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any statute, by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, and shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, member, employee or agent and shall inure to the benefit of the heirs, executors, and administrators of such person.

Section 7. Insurance. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who was or is a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, member, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article V or of the General Corporation Law of the State of Delaware.

Section 8. References to "the Corporation". For the purposes of this Article V, references to "the Corporation" shall include, in addition to the resulting Corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger and the corporation which, if its separate existence had continued, would have had power and authority to (or in fact did) indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, member,

employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

ARTICLE VI

CERTIFICATES OF STOCK; RECORD DATE

Section 1. Form. Every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of the corporation by the Chief Executive Officer, the President, the Chief Financial Officer or a Vice-President and the Secretary or an Assistant Secretary of the corporation, certifying the number of shares owned by such holder in the corporation. If such a certificate is countersigned (1) by a transfer agent or an assistant transfer agent other than the corporation or its employee or (2) by a registrar, other than the corporation or its employee, the signature of any such Chief Executive Officer, President, Chief Financial Officer, Vice-President, Secretary, or Assistant Secretary may be facsimiles. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation whether because of death, resignation or otherwise before such certificate or certificates have been delivered by the corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the corporation. All certificates for shares shall be consecutively numbered or otherwise identified. The name of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the books of the corporation. Shares of stock of the corporation shall only be transferred on the books of the corporation by the holder of record thereof or by such holder's attorney duly authorized in writing, upon surrender to the corporation of the certificate or certificates for such shares endorsed by the appropriate person or persons, with such evidence of the authenticity of such endorsement, transfer, authorization, and other matters as the corporation may reasonably require, and accompanied by all necessary stock transfer stamps. In that event, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate or certificates, and record the transaction on its books. The board of directors may appoint a bank or trust company organized under the laws of the United States or any state thereof to act as its transfer agent or registrar, or both in connection with the transfer of any class or series of securities of the corporation.

Section 2. Lost Certificates. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates previously issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his or her legal representative, to give the corporation a bond sufficient to indemnify the corporation against any claim that may be made

against the corporation on account of the loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 3. Fixing a Record Date for Stockholder Meeting. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be the close of business on the next day preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

Section 4. Fixing a Record Date for Action by Written Consent. In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the board of directors. If no record date has been fixed by the board of directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by statute, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Secretary of the corporation. If no record date has been fixed by the board of directors and prior action by the board of directors is required by statute, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the board of directors adopts the resolution taking such prior action.

Section 5. Fixing a Record Date for Other Purposes. In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment or any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purposes of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

Section 6. Registered Stockholders. Prior to the surrender to the corporation of the certificate or certificates for a share or shares of stock with a request to record the transfer of such share or shares, the corporation may treat the registered owner as the person entitled to receive dividends, to vote, to receive notifications, and otherwise to exercise all the rights and powers of an owner. The corporation shall not be bound to recognize any equitable or other claim to or

interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof

Section 7. Subscriptions for Stock. Unless otherwise provided for in the subscription agreement, subscriptions for shares shall be paid in full at such time, or in such installments and at such times, as shall be determined by the board of directors. In case of default in the payment of any installment or call when such payment is due, the corporation may proceed to collect the amount due in the same manner as any debt due the corporation.

ARTICLE VII

GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or any other purpose and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 2. Checks, Drafts or Orders. All checks, drafts, or other orders for the payment of money by or to the corporation and all notes and other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents of the corporation, and in such manner, as shall be determined by resolution of the board of directors or a duly authorized committee thereof.

Section 3. Contracts. The board of directors may authorize any officer or officers, or any agent or agents, of the corporation to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances.

Section 4. Loans. The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

Section 5. Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the board of directors.

Section 6. Corporate Seal. The corporation shall have a seal as designated by the board of directors.

Section 7. Voting Securities Owned By Corporation. Voting securities in any other corporation held by the corporation shall be voted by the Ranking Officer, unless the board of directors specifically confers authority to vote with respect thereto, which authority may be general or confined to specific instances, upon some other person or officer. Any person authorized to vote securities shall have the power to appoint proxies, with general power of substitution.

Section 8. Inspection of Books and Records. Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean any purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in the State of Delaware or at its principal place of business.

Section 9. Section Headings. Section headings in these by-laws are for convenience of reference only and shall not be given any substantive effect in limiting or otherwise construing any provision herein.

Section 10. Inconsistent Provisions. In the event that any provision of these by-laws is or becomes inconsistent with any provision of the certificate of incorporation, the General Corporation Law of the State of Delaware, the Stockholders Agreement or any other applicable law, the provision of these by-laws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect. Each Reference to the Stockholders Agreement shall be given effect only at such times as a Stockholders Agreement is then in effect.

ARTICLE VIII

AMENDMENTS

These by-laws may be amended, altered, or repealed and new by-laws adopted at any meeting of the board of directors by a majority vote. The fact that the power to adopt, amend, alter, or repeal the by-laws has been conferred upon the board of directors shall not divest the stockholders of the same power.

BEACON MANAGEMENT AGREEMENT

This Management Agreement is made and entered into as of the ____ day of _____, 19___ by and between Beacon Education Management, LLC, a Tennessee Limited Liability Company ("Beacon") with a principal place of business at 112 Turnpike Road, Suite 107, Westborough, MA, and the Board of Trustees of the South Buffalo Charter School, a New York body corporate that anticipates status as a governmental agency (the "Board"). It is the purpose of the Board and Beacon to create an educational alliance, under which they will work together to bring educational excellence to the Buffalo, New York School District, based on Beacon's school design, educational program, and management principles. It is the parties' intention to create a relationship based on trust, common educational objectives and clear accountability.

1. TERM

1.1 Term. This Agreement shall become effective August 1, 1999 and shall cover five academic years commencing on or about September 7, 2000 and ending on June 30, 2005 This Agreement is subject to termination during the initial term or any renewal under the terms and conditions set forth below.

1.2 Renewal. This Agreement shall be automatically renewed for an additional term of one year, and from year to year thereafter, unless written notice of intent to terminate or renegotiate is given by either party not later than the December 31 prior to June 30, 2005 or the December 31 prior to any subsequent June 30th if the Agreement has been renewed. In no event shall any such renewal or renegotiations extend beyond the effective date of any charter contract granted to the Board.

2. CONTRACTING RELATIONSHIP

2.1 The Board anticipates a contract by the State University of New York (the "Authorizer") to organize and operate a charter public school. Upon execution of a charter school contract the Board will be authorized by the Authorizer and by law to organize and operate such School, and will be vested by the Authorizer with all powers necessary for carrying out its program, including but not limited to the power to contract for the services, and program to be supplied by Beacon pursuant to this Agreement, in accordance with applicable sections of the New York Education Law and other applicable statutes and regulations. Beacon acknowledges that this Agreement is subject to the contract between the Board and the Authorizer, and such contract may be revoked under its terms so as to render this Agreement ineffective and inoperative.

2.2 Acting under and in the exercise of such authority, the Board hereby contracts to Beacon, to the extent permitted by law, for the provision of educational services and the management and operation of the South Buffalo Charter School(the "School"), as provided for in this Agreement, and subject to the oversight of the Board, the

Authorizer, and the State Board of Education as provided for in this Agreement, the charter contract, and by law.

2.3 Beacon and the Board understand and agree that the School is a public school chartered by the Authorizer pursuant to the provisions of the New York State Education Law and as such is subject to certain provisions of Article 56 and other provisions of the New York State Education Law. Beacon and the Board agree that the School will be operated in full compliance with its Charter and the statutes and regulations which apply to public school academies in the State of New York, and that in the case of any conflict between any such statue or regulation and any provision of this Agreement, such statute or regulation is controlling.

3. PERFORMANCE AND DELIVERY OF SERVICES

3.1 The School will open on or about Sept 7, 2000, with a student population of approximately 234 students, approximately 36-54 students in each grade, grades K-4 and expanding in subsequent years to serve a total 648 student school as may be set forth in Exhibit A. Beacon shall have the option to decline to operate the School unless a minimum of 150 students are enrolled. In that event, neither Beacon nor the School shall not be in breach of its obligations, but rather, this Agreement shall be deemed terminated for reasons beyond the control of either party, with neither party having any further obligation or liability to the other.

3.2 It shall be Beacon's duty and obligation to manage, operate, and administer the School on behalf of the Board, it being understood that, at all times, Beacon remains accountable and subject to the oversight of the Board, the Authorizer and state authorities, as provided for in this Agreement and by law. Except as otherwise provided for in this Agreement, this duty and obligation shall include, but shall not be limited to, providing educational and instructional programs to students who attend the School; all personnel functions; oversight of maintenance operation of the school facilities provided by the Board; business administration functions; oversight of extra and co-curricular activities and programs; oversight of professional development for administrators and instructional personnel; and selection and procurement, on behalf of the School, of all instructional materials, equipment and supplies.

3.3 Beacon, acting on behalf of the School, shall have power and authority, consistent with federal and state law and subject to the other terms and conditional of this Agreement and the oversight of the Board as provided for herein, to: (i) contract for goods and services; (ii) prepare a budget; (iii) select personnel and determine their responsibilities and compensation; (iv) procure insurance; (v) lease or otherwise contract with a third party for the use of facilities for school purposes and the operation and maintenance thereof; (vi) purchase, lease or rent furniture, equipment and supplies; (vii) accept and expend gifts, donations or grants of any kind in accordance with such conditions prescribed by the donor as are consistent with law and not contrary to any

terms of this Agreement; (viii) perform the business administration of the school; (ix) establish and conduct an educational program and curriculum for the school as provided for below; (x) conduct extra- and co-curricular activities and programs; (xi) conduct professional development for all principals and instructional personnel; (xii) acquire and select instructional materials, equipment and supplies; (xiii) exercise such other powers as provided for elsewhere in this Agreement to the extent consistent with this Agreement and state law; and (xiv) generally, take such other actions as may be necessary or desirable properly and efficiently to operate the public school.

3.4 Educational Program and Curriculum.

3.4.1.The Beacon Education Program. The education program provided by Beacon to students who attend the School shall be modeled on the "Beacon School Design," attached hereto as Exhibit B, as such are modified by Beacon from time to time. It is understood between the parties that an essential principle of the Beacon School Design is its flexibility, adaptability and capacity to change in the interests of continuous improvements and efficiency, and further, that the Board and Beacon are interested in results and not in inflexible prescriptions. The Board shall be consulted prior to any substantial modification to the Beacon School Design and/or the Student Standards. The Board shall be provided with notice as to all changes to these documents. Beacon will also seek Board and Authorizer approval of all modifications that constitute significant changes in the curriculum before implementing such curriculum changes.

3.4.2. State Curriculum Requirements. Beacon shall implement its educational program in a manner that is consistent with state law, including requirements regarding content and subjects of instruction, unless such requirement has been waived by state authorities.

3.4.3. Local Adaptation. Beacon shall consult with the Board and Principal and teachers of the School to augment and customize the curriculum to meet the needs of local community, the special concerns of the Board or Authorizer, and federal, state and local curriculum and program requirements. The staff at the school shall develop the lesson plans by which the content of the Beacon School Design is delivered and the student standards are achieved. Such lesson plans shall incorporate items of special local interest.

3.5 Accountability for Pupil Performance Evaluation and Standards

3.5.1. Evaluation. Beacon shall implement pupil performance evaluation systems which permit evaluation of the educational progress of each School student. Beacon shall be responsible for and accountable to the Board for the performance of the students who attend the Charter School according to the performance criteria set out in Exhibit C, "Assessment and Accountability Plan," and such other assessment strategies as may hereafter be agreed to in writing by Beacon and the Board. Beacon and the

Board shall cooperate in good faith to identify other measures of and goals for student and school performance, including but not limited to parent, teacher, and student satisfaction.

3.5.2. Progress Reports to Board. Information on the educational performance and progress of School students and on the financial operations of the School, shall be provided to the Board quarterly. In addition, during each school year, such information shall be provided to the Board upon reasonable advance request, to enable the Board to monitor Beacon's educational performance and the efficiency of its operation of the School. Nothing in this paragraph shall be construed to be in derogation of the Board's ultimate legal authority and responsibility for the School under its Charter; rather, it shall be construed as effectuating Beacon's accountability to the Board for the operation of the School and the achievement of student learning.

3.5.3. Assessment of Success. The School's success may be measured not only by absolute levels of achievement, but also by comparative measure against students in the local school district who have backgrounds and achievement levels similar to the charter school students upon their enrollment in the School. Beacon understands that failure to demonstrate progress on the agreed-upon goals and measures of student performance may be grounds for the Authorizer to revoke its Charter agreement with the Board, or for the Board to terminate this Agreement according to the terms and procedures set forth below.

3.6 Other Obligations Beacon shall comply with all other obligations set forth in this Agreement.

4. FACILITIES AND OTHER EXPENSES AND SERVICES

4.1.1 Provision of Suitable School Facilities. The Board shall use its best efforts to provide the School with a suitable facility located in the Buffalo, New York School District. Beacon will assist the Board in the identification of a facility, and the Board will consult with Beacon prior to entering into a lease or purchase of a facility. If the Board and Beacon together are unable to provide a facility adequate for the Beacon program and in full compliance with all applicable building and safety codes, then this Agreement shall be deemed terminated for reasons beyond the control of either party, with neither party having any further obligation or liability to the other. Beacon and the Board shall also work together to provide facilities needed to expand the charter school by one grade level in each subsequent year.

4.1.2 Equipment. The Board shall use its best efforts to provide such desks and other furniture, equipment, library and media materials, and other similar materials and furnishings integral to the operation of a school and such improvements as are reasonably necessary for the implementation of the Beacon program. Beacon shall assist in the identification and procurement of suitable furniture and equipment. If the

Board and Beacon together are unable to provide suitable furniture and equipment for the Beacon program, then this Agreement shall be deemed terminated for reasons beyond the control of either party, with neither party having any further obligation or liability to the other.

4.2 Control and Maintenance of School Facilities

4.2.1. Beacon Responsibilities.

4.2.1.1 Beacon shall be responsible for overseeing the procurement and installation of technology integral to the Beacon School Design.

4.2.1.2 Beacon shall take reasonable precautions to ensure that the facility, furnishings, books and equipment provided to the School by the Board are maintained in good condition, reasonable wear and tear from use in the school excepted.

4.2.1.3 Beacon shall oversee the procurement of insurance for damage or loss to property and equipment provided by the Board at the site as set forth below, on which Beacon shall be named as additional insured.

4.2.1.4 The Board's lease with the landlord shall provide that the landlord shall maintain the site in accordance with all applicable federal, state, and local laws, codes, rules and regulations, except to the extent they have been waived by proper authorities.

4.2.1.5 The Board's lease shall provide for the landlord to procure and maintain insurance, or otherwise hold harmless Beacon, the Board and the Authorizer for damage or loss to the property leased from the landlord, to the extent that such damage or loss (a) prevents Beacon from conducting the School educational program at the site. The Board shall seek to provide in its lease that the landlord shall secure from the insurers waivers of subrogation as against the Board, the Authorizer, Beacon and its facilities managers, their respective officers, employees, and agents, for the full amount of the policy and any deductibles.

4.2.2. Miscellaneous

4.2.2.1 The Board shall have access to the Leased Premises at any time for inspection or for any other reasonable purpose, provided that such access does not unreasonably interfere with the programs or operations of the School.

4.2.2.2 Should the landlord for any reason terminate the lease or the Board's or Beacon's right to use the site, or should the use of such site become impractical by reason of fire, flood or other act of God, Beacon may elect to treat such circumstance as a Material Adverse Unavoidable Change as defined below in Section 14.4.1(b). In such circumstances, Beacon shall have the right, but not the obligation, to find an alternative suitable facility to continue or resume the School program.

4.2.2.3 The Board shall ensure in its lease with the landlord that Beacon, its employees

and contractors may undertake such repairs, maintenance, service and other activities within the facilities leased by the Board, as Beacon may reasonably determine to be necessary or appropriate to conducting its educational program, including but not limited to the installation and servicing of computers, phones, cabling and related items.

4.2.3 **Food Service.** Beacon shall be responsible for overseeing the procurement of food services for the School in accordance with applicable law. On behalf of the Board, Beacon may subcontract with a municipality or a public or private subcontractor for the provision of food services, with the approval of the Board and in accordance with applicable law.

4.2.4 **Transportation.** Beacon shall be responsible for overseeing the procurement, on behalf of the Board, of transportation services for students who must, by law, be provided with transportation to the School, either directly with the local school district or otherwise, and may subcontract for such transportation services, with the approval of the Board and in accordance with applicable law. The Board and Beacon may jointly agree also to seek transportation services for other students, even where not required to do so by law.

4.2.5 **Annual Audit** The School Board will consult with Beacon prior to the Board selection of a certified public accountant to conduct an independent annual audit in compliance with state law and regulations showing the manner in which funds are spent at the School.

5.0 SUBCONTRACTING OF SERVICES

5.1 Authority to Subcontract Beacon shall not subcontract the management, oversight or operation of the teaching and instructional program, except as specifically provided below in this section, or as otherwise agreed upon in writing by the Board.

5.1.1. Special Education. The Board and Beacon recognize their obligation to provide an appropriate education to all students enrolled in the School, regardless of special need in accordance with the requirements of the Individuals with Disabilities Act and section 504 of the Rehabilitation Act of 1973. Beacon may, on behalf of the Board, subcontract as necessary and appropriate to a municipal, public or private contractor or otherwise for the provision of special education services, subject to approval by the Board, which shall not be unreasonably withheld, and in accordance with applicable law.

5.1.2. Other Special Student Services. Beacon may, on behalf of the Board, subcontract for the provision of other special student services, such as English as a Second Language, psychologists, social workers, therapists, etc., with the prior approval of the Board, which shall not be unreasonably withheld, and in accordance with applicable law.

5.2. Conditions of Subcontracting. All subcontracts shall be in writing, shall be subject to the provisions of this Agreement, and shall be consistent with this Agreement. No subcontract permitted hereunder shall relieve or discharge Beacon from any obligation or liability under this Agreement. Beacon further agrees to take affirmative steps to utilize small businesses, minority owned firms, women's business enterprises and firms owned and controlled by socially and economically disadvantaged individuals as sources of supplies and subcontracted services, as and if required by federal, state or local law, rule or regulation.

5.3 Location of Performance. Beacon reserves the right to perform functions other than instruction, such as purchasing and professional development, off-site at Beacon's central services division or elsewhere, unless prohibited by state law.

6. RECRUITMENT, ADMISSION, AND STUDENTS

6.1 Recruitment and Admission. Beacon and the Board shall be jointly responsible for the recruitment of students. Application by or for students shall be voluntary, and shall be in writing. Students shall be selected based on the following procedures: Admissions shall be open to all students who reside within the State of New York on a space-available basis without regard to race, color, national origin, creed, sex, ethnicity, sexual orientation, mental or physical disability, age, ancestry, athletic performance, special need, proficiency in the English language, academic achievement, or any other basis that would be illegal if used by a public school district. The School shall seek a diverse student body that reflects the racial, ethnic, academic, and economic diversity of the community of the Buffalo School District which the School most directly serves. If there are more applications for enrollment in the School than there are spaces available, students shall be selected to attend using a random selection process. However, preference for enrollment will be given to siblings of students enrolled in the School and to students who were enrolled in the School in the previous year.

6.2 Disabled Students and Those with Other Special Needs. Subject to Section 5.1.1, above, the School shall be open to students with handicapping conditions and other special needs students to the extent that such students can be accommodated within the Beacon academic program, as required by law.

6.3 Code of Conduct. The Board will adopt and the Principal and staff shall administer a Code of Conduct for the School.

6.4 Due Process. The School shall provide student due process hearings in

conformity with the requirements of state and federal law regarding discipline, special education, confidentiality and access to records the Board shall retain the right to provide due process as required by law. The Principal shall have the authority to suspend a student as provided for by law, subject to appeal to the Chairperson of the Board or such other member of the Board as the Board may designate. Only the School Board may expel a student.

6.5 Federal State and Local Program Requirements. Beacon shall provide educational programs that meet federal, state, and local requirements unless such requirements are or have been waived.

7. SCHOOL YEAR

The normal school year will consist of approximately 195 days of regular instruction for students. Beacon may extend the school year, subject to Board approval and available funds. The School's calendar shall be developed annually by the principal in consultation with the Board, and shall extend from on or about August 25 through on or about June 1. The school day shall be approximately 8 hours per day for students in grades K-8.

8. SCHOOL POLICIES, RULES, REGULATIONS AND PROCEDURES

8.1 School Policies. The Board and Beacon are committed to the success of the Beacon educational program developed by Beacon, as described in the School Design and related documents which are attached to this Agreement and/or incorporated by reference herein. This is the educational program that is incorporated by reference in the Board's Charter Contract with the Authorizer. Consequently, (a) it shall be the obligation of Beacon to make reasonable recommendations to the Board concerning policies, rules, regulations, procedures, curriculum, personnel, and budget, to enable the Board to implement the Beacon School Design; and (b) the Board, in exercising its legal authority under the New York Education Law and its Contract with the Authorizer, shall exercise good faith in considering and adopting Beacon's recommendations, so that Beacon's Design may be properly implemented. Further, because Beacon is accountable to the Board for the success of the School, the educational achievement of the students, and the efficiency of its operations according to the Beacon School Design, the Board's failure to adopt Beacon's reasonable recommendations may be considered by Beacon to be a material breach of this Agreement.

8.2 Family Educational Rights and Privacy Act. The Board hereby designates employees of Beacon as agents of the Board having a legitimate educational interest

such that they are entitled to access to education records under 20 U.S.C. § 1232g, the Family Educational Rights and Privacy Act ("FERPA"). Beacon, its officers and employees shall comply with FERPA at all times.

8.3 State and Federal Waivers. The Board shall, with Beacon's assistance, apply for and support the waiver of any federal and state rules and regulations that interfere with Beacon's School Design.

9. FINANCIAL ARRANGEMENTS

9.1 The Board shall comply with the requirements of the State for charter schools for the purpose of receiving or maintaining its eligibility to receive from the State of New York the per pupil allowance (PPA) which the Board is entitled to receive for each student enrolled and in attendance in the School as provided for in the applicable school aid act. Beacon shall provide such assistance to the Board in the preparation or review of State Aid Act applications and reports as the Board may request. The Board shall permit Beacon to review any such applications and reports prior to their submission. The Board shall apply for all State Aid funds or other monies which it receives from the Authorizer on behalf of the School.

9.2 The Board, as Beacon may reasonably request and assist, shall solicit and receive grants and donations consistent with the mission of the School.

9.3 Consistent with local practice, the School may charge fees to students for extra services such as summer and after school programs, athletics, etc.

9.4 On or before June 15 of each year of the Initial Term or any renewal term, Beacon and the Board shall mutually agree to a budget for the upcoming school year (the "Annual Budget").

9.5 Beacon shall be reimbursed by the School for all employee compensation and employee benefits expenses incurred by Beacon for personnel located at the School, including but not limited to, salaries, bonuses, vacation pay, sick leave pay, health insurance, life insurance, disability insurance, workers compensation, state unemployment, federal unemployment, retirement contributions, and any other personnel-related costs, including recruitment and payroll costs. The Board shall, immediately as revenue is received, transfer to Beacon such funds as are necessary to fund these personnel-related operating expenses.

9.6 The Annual Budget for the School shall provide for payment of all operating expenses related to the operation of the School, including, but not limited to reimbursement of Beacon personnel expenses in accordance with Section 9.5 herein above, books, equipment, marketing, supplies, furniture, utilities, maintenance, staff development, curriculum materials, assessment, transportation, public relations, printing, duplicating, postage, Beacon Management Fee in accordance with Sections 9.8 and 9.9 herein below, lease

expense, debt payments (if applicable), accountability plan costs, accounting and insurance. With respect to these items, Beacon shall act as the disbursement agent on behalf of the Board to timely fund all such agreed upon Annual Budget expenditures, out of funds available therefore. The School shall be the lawful owner of all real and personal property purchased with such funds.

9.7 Policies of property and casualty insurance for the Facility shall be in customary and ordinary coverage amounts, with Beacon named as an additional insured. The Board shall provide a general liability policy of insurance for its operation of the School in the Facility, in customary and ordinary amounts, with Beacon named as an additional insured.

9.8 Beacon's Management Fee shall be 10% of Applicable Revenues (the "Management Fee") Applicable Revenues shall include all funds received by the School from Federal, State, County and local allocations and entitlement grants (e.g. Title 1, PL 94 -142) but shall not include other donations and revenue sources.

9.9 The Management Fee shall be paid in 10 monthly installments on the 15th of each month beginning in September and ending in June in the first year, and July through June in every year thereafter.

9.10 During the first year of operation of the School, the Annual Budget shall include an allocation for reimbursement of Beacon for any previously unreimbursed out-of-pocket expenses incurred by Beacon after the granting of the Charter and before the opening of the School and related to organizing the school. Such payments shall be made to Beacon in equal monthly installments during September through May of the first year of operation of the School.

9.11 Notwithstanding anything herein, if the terms and conditions of a grant or donation received by the School prohibit the transfer of funds to Beacon in accordance with Section 9.5 of this Agreement, then the Board shall not be required to transfer to Beacon such portion of the grant or donation. In this event, the Board shall pay such personnel-related costs directly; however, if a grant or donation permits the transfer of funds to Beacon in accordance with Section 9.5 of this Agreement, then the Board shall transfer such funds to Beacon in accordance with Section 9.5 of this Agreement, and Beacon shall assume responsibility for personnel-related costs associated therewith.

9.12 Beacon shall provide the Board with a projected budget prior to opening the School, such budget to be subject to the approval of the Board.

9.13 Beacon shall provide, no less frequently than 30 days after the end of each calendar quarter, reports on School operations, finances and student performance to the Board.

9.14 The Board shall conduct an annual audit in compliance with state law and regulations showing the manner in which funds are spent at the School, and Beacon shall cooperate fully in the preparation of such audit, to be performed by

a Certified Public Accountant selected by the Board.

10. PERSONNEL & TRAINING

10.1 Authority. Beacon's personnel management duties and authority shall include determination of staffing levels, setting compensation and other terms and conditions of employment, selecting, evaluating, assigning, training and disciplining teaching and non-teaching personnel, and all other personnel functions, consistent with state and federal law. Beacon shall work with the Principal in performing these duties. Beacon shall be the employer of all staff.

10.2 Principal. Because the accountability of Beacon to the Board is an essential foundation of this relationship, and because the responsibility of the Principal of the School is critical to its success, Beacon shall have the authority and responsibility, consistent with state law, to recruit, select and supervise the Principal and to hold him or her accountable for the success of the School. The Principal shall be employed by and will be subject to dismissal by Beacon. The employment contract with the Principal, and the duties and compensation of the principal shall be determined by Beacon subject to approval/ratification by the Board. The Principal shall be employed in the School on an annual or bi-annual basis, and shall be accountable to Beacon [and the School] for the performance of the School. The Board shall exercise good faith in adopting/ratifying the recommendations of Beacon. Since the selection of the principal is essential to the program, Beacon shall have the right to terminate this Agreement without liability or penalty should the Board or the fail to adopt/ratify Beacon's recommendations.

10.3 Selection of Teachers and Other Personnel. The Principal and Beacon, in turn, shall have similar authority to select and hold accountable the teachers and the non-instructional staff in the School. Teachers shall be employed by and will be subject to dismissal by Beacon.

10.4 Terms and Conditions of Employment. Among other terms and conditions to be set by Beacon, the Principal and the instructional and non-instructional staff shall be employed subject to the following:

10.4.1 selection and assignment by Beacon of staff within the School by Beacon; performance reviews consistent with Beacon's principles of accountability;

10.4.2 the work year and work day envisioned by the Beacon education model set forth in the Beacon School Design, and the professional development training program prior to the opening of the School provided by the Beacon School Design;

10.4.3 continuing employment of the Principal and other personnel at the School shall be subject to an annual satisfactory evaluation. Staff who are rated unacceptable shall be subject to termination by Beacon upon recommendation of the Principal;

10.4.4 staff shall be compensated according to Beacon compensation principles; staff will be at the School by choice.

10.5 Certification and Accreditation of Staff. Where required, the Board shall obtain state education department waivers and shall work to expedite the certification process or alternative accreditation for all new personnel.

10.6 Training of Instructional Staff Beacon shall provide training in its methods, curriculum, program, and technology, to all teaching personnel, on a regular and continuous basis.

10.7 Non-Instructional Staff Training. Non-instructional personnel shall receive such training as Beacon determines.

10.8 Employee Salaries and Benefits. Beacon shall pay the salaries, fringe benefits, and state and federal payroll taxes for all individuals employed at the School by Beacon.

11. PROPRIETARY INFORMATON

11.1 The Board agrees that to the extent permitted by law, Beacon shall own all copyright and other proprietary rights to all instructional materials, training materials, curriculum and lesson plans, and any other materials developed by Beacon, its employees, agents or subcontractors, or by any individual working for or supervised by Beacon, which is developed during working hours or during time for which the individual is being paid. Beacon shall have the sole and exclusive right to license such materials for use by other school districts or customers or to modify and/or sell such material to other school districts and customers. During the term of this Agreement, Beacon may disclose such proprietary information, including that which is currently in existence as well as that which may be created in the future. The Board shall treat all such proprietary information as though it were a trade secret and copyrighted, and shall use such efforts as may be reasonably requested by Beacon so as not to disclose, publish, copy, transmit, modify, alter or utilize such proprietary information during the term of this Agreement or at any time after its expiration other than to the extent necessary for implementation of this Agreement. The Board shall use such efforts as may be reasonably requested by Beacon to assure that no Board personnel or agent disclose, publish, copy, transmit, modify, alter or utilize Beacon's proprietary information.

11.2 Notwithstanding Section 11.1, if new teaching techniques or methods or significant revisions to known teaching techniques or methods are developed or used in the School, Beacon shall report those to the Board, and the Board may

report them to the Authorizer, to be made available to the public, as required by law.

12. REPRESENTATIONS

12.1 The Board has obtained from the Authorizer a representation enforceable by Beacon that the Authorizer has the authority under law to execute, deliver and perform its Agreement with the Board and that the Board has the authority under law to execute, deliver and incur the obligations provided for under this Agreement and to contract with Beacon for Beacon to provide the services set forth in this Agreement.

12.2 Beacon represents that it is a limited liability company duly organized under the laws of the State of Tennessee, with the purpose and legal ability to contract to provide educational management services.

12.3 The Board and Beacon respectively warrant to the other that their actions have been duly and validly authorized, and that they will adopt any and all resolutions or expenditure approvals required for execution of this Agreement.

12.4 Both Beacon and the Board warrant that there are no pending actions, claims, suits or proceedings, to its knowledge, threatened or reasonably anticipated against or affecting it, which if adversely determined, would have a material adverse affect on its ability to perform their respective obligations under this Agreement.

12.5 The Board warrants that it has obtained, or shall obtain no later than July 1, 2000, any and all third-party waivers, grants or approvals necessary for the parties to enter into the relationship contemplated by this Agreement, which would interfere with Beacon's ability to implement the Beacon School Design.

12.6 It is understood that if the Board is unable to obtain by July 1, 2000, the waivers, grants, or approvals referred to above in Section 12.5, then either party may terminate this Agreement as of such date upon written notice, without liability or obligation of either party to the other. Beacon at its discretion may choose to proceed notwithstanding the inability or failure of the Board to obtain particular waivers.

13. INDEMNIFICATION

13.1 Legal Representation and Costs.

13.1.1. Except as expressly provided herein or in connection with insurance coverage required to be provided in this Agreement by one party for the benefit of the other, each party shall be responsible for its own legal representation and legal costs.

13.1.2. Except where there is an actual or potential conflict of interest, the Board and

Beacon shall fully cooperate with legal counsel for one another in connection with any legal claim asserted against either of them.

13.2. Each party to this agreement shall indemnify and hold harmless the other, the Authorizer, and their respective boards of directors, partners, officers, employees, agents and representatives, from any and all personal injury and property damage claims and liabilities which they may incur and which arise solely out of the negligence of the other party, or the negligence of that party's trustees, directors, officers, employees, agents or representatives. Such indemnification may be achieved by the purchase of general liability and property insurance policies, or by such other means as the parties may mutually agree.

14. TERMINATION AND REMEDIES FOR BREACH

14.1 **Termination Sole Remedy.** This Agreement may be terminated either by the Board or by Beacon during the term hereof for cause, as defined below. Termination of this Agreement shall be the sole remedy for breach hereof, except (1) as otherwise expressly provided below in Section 14.7, and (2) except for enforcement of the mutual indemnification provisions set forth above in Section 13. The procedures and conditions set forth in this Section with respect to termination shall apply to all terminations, regardless of the availability of other remedies under Section 14.7.

14.2 **Board Termination For Cause**. The Board may terminate this Agreement for cause prior to the end of the term specified in Section 1.1, in accordance with the procedures set forth herein, for any of the following reasons:

14.2.1. if, after one academic year, the School fails to make reasonable progress toward achievement of agreed-upon goals and student performance standards identified in the Agreement; provided that the Board has advised Beacon that its performance has been deficient and has allowed Beacon a reasonable period in which to remedy such failures. If the Board makes a good faith reasonable determination that Beacon's remedial action is unsatisfactory, the Board may terminate the Agreement under this paragraph pursuant to the procedure set forth in Section 14.5.3.

14.2.2. if Beacon fails to meet generally accepted public sector accounting principles standards of fiscal management;

14.2.3. if Beacon violates any material provision of law with respect to the School from which the School was not specifically exempted and which results in material adverse consequences to the School;

14.2.4. if Beacon otherwise substantially breaches any of the essential terms and conditions of this Agreement and thereby undermines the joint purposes of this Agreement; or

14.2.5. if the Authorizer revokes its contract with the Board as provided for therein;

14.2.6. as a result of the occurrence of a Material Adverse Unavoidable Change as described in Section 14.4, below or elsewhere in this Agreement;

14.2.7. if the State Board of Education revokes the contract between the Authorizer and the Board pursuant to state statute;

14.2.8. any other reason for termination specifically set forth in this Agreement;

14.3 **Beacon Termination for Cause**. Beacon may terminate this Agreement for cause prior to the end of the term specified in Section 1.1, in accordance with the procedures set forth herein, for any of the following reasons:

14.3.1 as a result of a failure to achieve a minimum enrollment in accordance with Section 3.1, above;

14.3.2. if the parties are unable to fund, secure and provide a suitable school facility as provided in Section 4.1.1 of the Agreement.

14.3.3. if the Board fails to approve the reasonable personnel, curriculum, program or similar recommendations of Beacon with respect to the School which Beacon reasonably determines to be necessary for the implementation of the Beacon School Design.

14.3.4. if the Board fails to obtain the waivers from third parties as provided for in this Agreement which Beacon reasonably determines to be necessary for the implementation of the Beacon School Design;

14.3.5. if the Board fails to remedy a material breach of this Agreement within a reasonable period of time not less than fourteen days after receiving notice of the breach from Beacon. For this purpose, a material breach may include, but is not limited to, failure to make payments as required by this Agreement unless the required payment is subject to reasonable dispute; or any other failure which undermines the joint purposes of this Agreement.

14.3.6. as a result of the occurrence of a Material Adverse Unavoidable Change as described Section 14.4, below;

14.3.7. if the Authorizer revokes its contract with the Board as provided for therein due to a failure by the Board

14.3.8. if the Board fails to obtain or provide the warranties and conditions set forth herein.

14.3.9. for such other reasons as are specifically stated in this Agreement; or

14.3.10. with the written approval of the Board.

14.4 Certain Material Adverse Changes.

14.4.1. The occurrence of any event described in paragraphs (a), (b), or (c) below that is beyond the reasonable control of the Board and/or Beacon and has a material adverse effect on Beacon's ability to operate the School in accordance with the budget or the Beacon School Design shall be referred to as a "Material Adverse Unavoidable Change". Promptly upon becoming aware of the occurrence of a Material Adverse Unavoidable Change, Beacon or the Board may elect to deliver written notice to the other, triggering the provisions of this Section 14. The events which may constitute a Material Adverse Unavoidable Change are the following:

(a) a material reduction in the available combined federal and state funding for the School on a per pupil basis in comparison to the funding that would be available for the 1996-97 fiscal year;

(b) a change in the availability or suitability of sites for use as a charter school from the availability or suitability contemplated by this Agreement; including, but not limited to inability of the parties to secure funding sufficient to provide a suitable facility as described in Section 4; or termination of the lease for the facility for any reason.

(c) the enactment, repeal, promulgation or withdrawal of any federal, state; or local law, regulation, or court or administrative decision or order. This shall include, but not be limited to a decision or order finding that this Agreement, or any of its terms, or the operation of the School in conformity with this Agreement or the Board's contract with the Authorizer violates the Board's, the Authorizer's or the state's responsibilities, duties or obligations under the state or federal constitutions, statutes, laws, rules or regulations, or any contract or agreement.

14.4.2 . Upon delivery of the notice of a Material Adverse Unavoidable Change, the parties shall promptly commence negotiations in good faith regarding a mutually agreeable approach (including without limitation, an amendment to the Agreement, alternative funding arrangements, etc.) to address the Material Adverse Unavoidable Change. In addition, if despite such good faith negotiations the parties are unable to agree upon an acceptable approach to address the Material Adverse Unavoidable Change, then either party may elect to terminate the Agreement, subject to Section 14.5, by delivering written notice of termination to the other at least 90 days in advance of the effective date of such termination, or in such lesser time as is reasonable or mandated under the circumstances.

14.5 Termination Notice and Other Termination Procedures.

14.5.1.Beacon Cure Rights. Notwithstanding Section 14.2, the Board shall give Beacon written notice of the breach and of the requirements for correction of any breach, and shall give Beacon a reasonable period of time not in excess of ninety (90) days to remedy the breach. If the breach is not corrected within the time period specified by the Board in the notice of breach, then the Board may terminate the Agreement in accordance with the applicable paragraph of Section 14.2 and the procedures of this Section 14.5.

14.5.2. Notice. Unless otherwise expressly provided herein, each party shall give the other party at least 90 days advance written notice of a termination of this Agreement prior to the end of its term.

14.5.3. Termination for Failure to Make Reasonable Progress Towards Achieving Academic Goals. The following procedures shall apply to a termination of this Agreement by the Board for the reasons set forth in Section 14.2:

14.5.3.1 The Board shall give Beacon at least 90 days advance written notice of its intent to terminate this Agreement for such reason. The matter shall immediately be submitted to the Board Chairperson and Beacon's Chief Operating Officer, or their respective designees, for further consideration and discussions to attempt to resolve the matter.

14.5.3.2 If these representatives are unable to resolve the matter and, specifically, if there is disagreement as to whether Beacon has made reasonable progress towards achievement of the agreed-upon educational goals and student achievement standards, then either party may submit the matter to binding arbitration as provided for in this Section. If the matter is not resolved as provided herein or is not fully arbitrated within the ninety (90) day period, then termination shall become effective in accordance with the Board's original notice

14.5.3.3 Not later than 30 days following the Board's Notice to Beacon of its intent to terminate under Section 14.1.1, either party may submit the matter to arbitration by delivering written notice to the other. The arbitration shall be conducted by a panel of three education professionals, one designated by each party and the third, neutral arbitrator chosen jointly by the respective party arbitrators. Within 7 days following the date of such notice, each side shall designate a recognized and independent educational professional as its panel representative; within 7 days thereafter, these representatives shall designate the neutral. The arbitrators shall convene a hearing as soon as possible thereafter. Each party may present witnesses, documentary, and other evidence in its behalf, but strict rules of evidence shall not apply.

The arbitrators shall permit the filing of briefs upon request of either party. The arbitrators shall issue a written opinion concerning the matters in controversy together with their award. They shall issue their award within 30 days following the close of the hearing, and judgment upon the award may be entered in any court having jurisdiction thereof. Sections 0 and H of the Alternative Dispute Resolution Procedure set forth in Exhibit E to this Agreement shall also apply to this procedure.

14.5.4 **Avoidance.** Notwithstanding the foregoing, each party shall use its good faith best efforts to avoid a termination of the Agreement that becomes effective during the middle of a school year because of the disruption to the educational program and the students. Therefore, in the event this Agreement is terminated by either party prior to the end of the term specified in Section 1.1 of this Agreement, absent unusual and compelling circumstances, the termination will not become effective until the end of the school year.

14.5.5 **Assistance.** In the event of termination of this Agreement for any reason, Beacon shall, at Beacon's expense, in all events pr6vide reasonable assistance to the Board for up to 90 days after the effective date of termination of the Agreement, to assist in the transition to another school program.

14.6 Additional Remedies for Breach of This Agreement.

14.6.1.Certain Termination Only Remedies. Except as otherwise expressly provided herein, termination of this Agreement in accordance with Sections 14.2 and 14.3 shall be the sole remedy for breaches of this Agreement including specifically, but not limited to, the breaches enumerated below in this Section 14.6.1. The procedures and conditions set forth in this Section with respect to termination shall apply to all terminations, regardless of the availability of other remedies under Section 14.6.

14.6.1 Any breach by Beacon of any commitment regarding the education structure, curriculum or performance of the Charter School, or which is measurable in terms of the achievement or performance of Charter School students, except to the extent that the breach results in a "direct third party funding loss" to the Board.

Whenever it appears in this Agreement, the term "direct third party funding loss" shall mean a reduction in the funding from Authorizer, state, federal, or other third party funding sources that is directly attributable to the breach of this Agreement and the effect of which is not passed through to the other party (e.g., in the form of a reduction in the Board's funding of the School). These breaches shall include without limitation the following:

(1) Failure to comply with state content standards or other state law curriculum requirements which have not been waived or modified, to the extent

that such breach does not result in a direct third party funding loss.

(2) Failure to make continual progress towards achieving the educational program goals and objectives described in this Agreement, to the extent that the Board does not suffer a resulting direct third party funding loss; it being understood that the Agreement may not be terminated for this reason before the completion of one full academic year, and is subject to exhaustion of the procedures set forth in Section 14.5.3, above.

14.6.1.2 Any breach by Beacon of its obligation to comply with generally applicable laws, except to the extent that the breach results in a direct third party funding loss to the Board. These breaches shall include, without limitation, failure to comply with applicable student attendance, conduct and discipline laws, except to the extent that the breach results in a direct third party funding loss to the Board.

14.6.1.3 Any material breach or inaccuracy of the Board's warranties under this Agreement;

14.6.1.4 Any breach by the Board of its obligations:

(a) To adopt the reasonable recommendations of Beacon with regard to policies, procedures, rules and regulations applicable to the School, as provided under Section 8 or elsewhere in this Agreement; or

(b) To obtain required waivers from third parties as provided under Section 8 or elsewhere in this Agreement;

14.6.2 Breaches Subject to Cumulative Damage Limitation. The following breaches shall be subject to any of the following remedies: (1) termination of this Agreement only, or (2) monetary damages and termination or injunction, except that monetary damages for all such breaches collectively by Beacon on the one hand or the Board on the other hand shall be limited to $25,000 in the aggregate for the entire five (5) year term of this Agreement, and $5,000 per annum thereafter during the term of any extension of the term, to the extent that such breach results in a direct financial loss to the other party:

a. Any breach by the Board or Beacon in reporting or record-keeping requirements or commitments. These breaches shall include without limitation failure of Beacon to comply with its reporting responsibilities described in Section 3.5, and Section 9.14, or elsewhere in this Agreement; or

b. Any breach by Beacon of its obligations following termination of the Agreement, including without limitation the obligations set forth in Section 14.5.4 of this Section.

14.6.3 Breaches Subject to All Available Remedies. In the event of any of the following breaches of this Agreement, a party may elect to terminate this Agreement as provided for in this Section, and the breaching party shall also be liable to the other

party for any remedies available in law or in equity for such breach.

14.6.3.1 Any breach of any obligation to make monetary payments to the other party, including:

(1) The Board's failure to make payments to Beacon as provided in Section 9, and any breach of any obligation of Beacon to refund any portion of such funding.

(2) Any breach of any obligation by either party that results in a direct third party funding loss to the other party, including without limitation:

(a) Failure of either the Board or Beacon to comply with requirements of federal funding programs that results in a direct financial loss to the other party.

(b) Failure of Beacon to comply with applicable provisions of state law relating to minimum educational days.

14.6.3.2 Certain breaches which have direct and foreseeable adverse financial consequences to the other party as follows:

(1) Failure of the lessee to make lease payments to the State pursuant to the lease agreement.

(2) Failure of either party to cooperate in defense of claims, or to provide and maintain insurance as required by this Agreement.

14.7 **Procedural Conditions to Damages Remedies.** As a condition to obtaining any monetary damages for a breach of this Agreement as permitted above. (1) the breaching party shall first be given a reasonable opportunity to cure the breach after receiving written notice of the breach from the other party. For this purpose, reasonable opportunity to cure shall mean cure within fourteen days of the effective date of such notice, or in the case of breaches which cannot practically be cured within fourteen days, commencement of the cure within fourteen days and diligent pursuit of the cure to the reasonable satisfaction of the non-breaching party until the cure is complete; and (ii) the parties shall exhaust the dispute resolution provisions provided for in Section 16. The computation of damages for any breach of this Agreement shall take into consideration the purpose of the Agreement to foster innovative educational approaches, and the mutual rights given to each party to terminate this Agreement.

15. INSURANCE

15.1 On behalf of the Board, Beacon shall procure and maintain for the benefit of the School and the Board, naming the School, the Board, Beacon and the Authorizer as insureds, general liability and umbrella insurance coverage, motor vehicle liability insurance and such other insurance as may be required by law, covering employees of both Beacon and the School. Such insurance shall be maintained in the amounts set forth in the attached Exhibit D.

15.2 Insurance for property damage or loss to the school facility and related capital facilities and for any ancillary property provided by the Board shall remain the responsibility of the Board, which shall name Beacon and its facility manager as co-insureds. The Board shall also maintain such insurance as shall be necessary to indemnify Beacon as provided in this Agreement.

15.3 On behalf of the Board, Beacon shall procure and maintain insurance for property damage or loss to property or equipment used at the School, on which the Beacon shall be named as co-insured.

15.4 Each party shall secure from its insurers waivers of subrogation as against the other and its agents, with respect to damages to the facilities and/or property therein, for the full amount of the policy and all deductibles. Each party shall, upon request, present evidence to the other that it maintains the requisite insurance in compliance with the provisions of this paragraph. Beacon and the Board shall comply with any information or reporting requirements applicable to the other under their respective insurance policies, to the extent practicable.

15.5 The parties agree that all employees of the School and of Beacon shall be covered by appropriate and adequate worker's compensation and unemployment insurance. Beacon, as the employer of the School employees, shall obtain workers' compensation insurance covering those employees, and unemployment insurance as required by law. Beacon shall be responsible for the costs of such insurance coverage. Unless otherwise provided by law, Beacon shall provide and maintain at least the minimum statutorily required insurance for its own employees, including but not limited to worker's compensation and unemployment compensation insurance. Each party shall provide adequate proof of the fulfillment of any of the requirements of this section to the other within seven (7) days of the receipt of a written request for such proof.

16. ALTERNATE DISPUTE RESOLUTION PROCEDURE

16.1 Alternate Dispute Resolution. The parties agree to cooperate in good faith in all actions relating to this Agreement, to communicate openly and honestly, and generally to attempt to avoid disputes in connection with this Agreement. If; nevertheless, a dispute should arise in connection with this Agreement, the parties agree to use their best efforts to resolve such dispute in a fair and equitable manner and without the

need for expensive and time-consuming litigation. Except as otherwise set forth in Section 14.2.1 and 14.5.3, in the event any dispute arises between the Board and Beacon concerning this Agreement, it shall be resolved in accordance with the alternate dispute resolution procedure that is set forth in Exhibit E hereto.

17. CONDITIONS PRECEDENT

17.1 The parties acknowledge and agree that this contract is contingent upon the occurrence of two conditions precedent. Should either condition precedent not occur, this contract shall not become effective.

17.1.1 Executed Contract to Charter. This agreement is not binding upon either party unless and until Authorizer and the School execute a contract to charter the School.

17.1.2 Lease of School Facility. This agreement is not binding upon either party unless and until the School executes a contract for the lease or purchase of a school facility to be used by the School.

17.2. Occurrence of Conditions Precedent. After both conditions precedent have occurred, all terms and conditions of this agreement are immediately effective. Any termination thereafter is governed by Section 14.

18. MISCELLANEOUS

18.1 Force Majeure. Neither party shall be liable if the performance of any part or all of this contract is prevented, delayed, hindered or otherwise made impracticable or impossible by reason of any strike, flood, riot, fire, explosion, war, act of God, sabotage, accident or any other casualty or cause beyond either party's control, and which cannot be overcome by reasonable diligence and without unusual expense.

18.2 Prior Agreements. This Agreement and Appendices hereto shall constitute the full and complete Agreement between the parties hereto. All prior representations, understandings and agreements are merged herein and are superseded by this Agreement.

18.3 Amendments. This Agreement may be altered, changed, added to, deleted from or modified only by agreement in writing executed by the Chief Executive Officer of Beacon and the Chair of the Board, as authorized by the Board.

18.4 Severability. If any provision or any part of any provision of this Agreement is determined to be unlawful, void or invalid, that determination shall not affect

any other provision or any part of any other provision of this Agreement and all such provisions shall remain in full force and effect.

18.5 **No Waiver**. No waiver of any provision of this Agreement shall be deemed or shall constitute a waiver of any other provision. Nor shall such waiver constitute a continuing waiver unless otherwise expressly stated.

18.6 **Assignment.** This Agreement shall not be assigned by either party without the prior written consent of the other party, provided, however, that Beacon may subcontract the performance but not the responsibility for certain duties and obligations of Beacon under the terms specifically set forth herein.

18.7 **No Third Party Beneficiary Rights.** With the exception of the Authorizer, no third party, whether a constituent of the Board, a member of the community, a student or parent of a student of the School or otherwise, may enforce or rely upon any obligation of, or the exercise of or failure to exercise any right of; the Board or Beacon in this Agreement. This Agreement is not intended to create any rights of a third party beneficiary.

18.8 **Negligent Acts of a Party.** Nothing in this Agreement shall affect or alter in any way responsibility of either party of this Agreement for the negligent, wrongful or unlawful act of that party's employees.

18.9 **Survival.** All representations, warranties and indemnities made herein shall survive termination of this Agreement.

18.10 **Construction and Enforcement.** This Agreement is made and entered into in the State of New York and shall be interpreted according to the laws of that state.

18.11 **Parties**. The Parties to this Agreement are The Beacon Education Management LLC and the South Buffalo Charter School Board of Directors and not any individual or individuals.

18.12 **Delegation of Authority**. Nothing in the Agreement shall be construed as delegating to Beacon any of the powers or authority of the Board which are not subject to delegation by the Board under New York law.

18.13 **Compliance with Laws.** Unless specifically waived by appropriate governmental authority, Beacon shall comply with all applicable laws, rules, regulations, ordinances, order or requirements of the State of New York and any governmental authority relating to its delivery of the goods or services specified in this Agreement.

18.14 **Appendices**. All appendices referred to in this Agreement are incorporated herein.

18.15 **Duplicate Originals**. This Agreement may be executed in duplicate originals.

18.16 **Board Access and Inspection**. Beacon shall make available to the School Board or the Authorizer for inspection and copying, upon reasonable notice, all books, records, and documents relating to Beacon's obligations and performance under

this Agreement, the operation of the School, and Beacon's receipt and expenditure of funds under this Agreement.

BEACON EDUCATION MANAGEMENT LLC

By: _____

Title: _____

Date _____

SCHOOL BOARD OF DIRECTORS

By: _____

Title: _____

Date _____

LIST OF APPENDICES

_____ - School Management Agreement

A. Grade Levels and Enrollments

B. Beacon School Design

C. Accountability Plan

D. Insurance Schedule

E. Alternative Dispute Resolution Procedure

EXHIBIT A

Schedule of Grades and Enrollment

	K	1	2	3	4	5	6	7	8
Yr1	54	36	48	48	48				
Yr2	72	72	72	72	72	72			
Yr3	72	72	72	72	72	72	72		
Yr4	72	72	72	72	72	72	72	72	
Yr5	72	72	72	72	72	72	72	72	72

EXHIBIT B

(The application serves as the School Design.)

EXHIBIT C

Accountability Plan

The Board of Directors expects that all students will achieve these minimum academic goals:

1 INTRODUCTION

The Accountability Plan developed by the Board will:

1) Include clear, concrete, measurable and agreed upon school performance objectives.

2) Measure and document progress toward these objectives

3) Use credible student assessment tools for annually tracking student performance.

4) Provide a system for professional appraisal of the work of the staff.

5) Report objectives, progress toward them, and student assessment results, along with other required information in its annual report.

The Accountability Plan described in this document conforms to the "common format" established in other Beacon Schools. It incorporates all Student and School Performance Objectives, Expectations, Strategies, Progress Indicators, Measurement Tools, and Current Status/Baseline Data.

Local Measures:

- Meet all learning standards at grades four, eight and twelve.

- All students will achieve at least one year of academic growth each year as measured by the Stanford 9. Students who are below grade level when they enter the school will be expected to reach grade level within two years.

- Achieve mastery level on standardized test administered at the school.

External Measures:

- Achieve a proficiency level of performance on the State assessment.

- Composite scores showing that all students tested gain at least one grade equivalent on the test designated by the charter authorizer.

School Accountability:

In addition the Board will develop an accountability plan with a third party. The plan will focus on but not be limited to the following:

- Parental Satisfaction as measured by reenrollment and participation in their child's education.

- And at least a 3.0 composite rating (on a scale of 1.0 to 4.0) from a minimum of 75% of all parents on a parent satisfaction survey.

Each year the Board will publish an annual report that will include the results of the parent survey and a summary of student achievement.

Sample Student Performance Objectives:

1) To ensure that all students achieve proficiency in comprehension and application in major subject areas: language arts, mathematics, social studies, science, and world languages/Spanish.

2) To ensure that all students achieve proficiency in skills and orientations: problem solving, self-directed and empowered learners, responsible and effective communicators, successful members of multiple communities, and producers of quality work.

Sample School Performance Objectives:

1) To actively pursue the school's mission and philosophy.

2) To implement the standards-based curriculum.

3) To foster a school climate and culture that supports the achievement of the school mission.

Expectations, strategies for attainment, progress indicators, and measurement tools for each of these objectives are described on the next several pages.

2 SAMPLE STUDENT PERFORMANCE

OBJECTIVE 1

To Ensure that All Students Achieve Proficiency in Comprehension and Application in Major Subject Areas.

EXPECTATIONS:

All students will become proficient in:

1) English/language arts: reading; writing; conventions, grammar, and usage; literary genre; and speaking, listening, and viewing.
2) Mathematics: numbers and operations, geometry and measurement, functions and algebra, statistics and probability, problem solving and mathematical reasoning, mathematical skills and tools, and mathematical communication.
3) Science: physical science concepts, life science concepts, earth and space concepts, and scientific connections and applications.
4) History and geography: time, continuity, and change; people and environments; power and participation; production and distribution; cultures and identities; and interdependence.
5) World language/Spanish: speaking and writing, creative work, cultural context, and interdisciplinary context.

STRATEGIES FOR ATTAINMENT:

The staff uses a wide range of instructional strategies, which include:

- Direct teacher instruction.
- An inquiry process to engage students in exploring topics, issues, problems, and choices;
- Problem-based learning that uses authentic learning tasks to facilitate student

learning as well as allow students to test and demonstrate their proficiency;

- Opportunities for ongoing self, peer, and teacher assessment.

Other strategies include:

- The development of Individual Learning Plan with all students;
- Learning activities that integrate the curriculum across subject areas;
- Effective technology integration to enhance teaching and learning.

PROGRESS INDICATORS:

- All students tested will gain at least one school year as measured by grade equivalents on a standardized test.
- Using local measures all students will attain at least the apprentice level of proficiency, as determined by mastery of grade level standards in language arts, mathematics, history and geography, science, and world languages/Spanish comprehension and application by the end of the school year.
- At least 75% of the students assessed at the apprentice level at the end of the first semester will advance to proficient level by the end of the school year.
- Based on national percentile scores, at least 75% of the students will score at or above the 75%ile on the Stanford 9 at the end of each year in all subskill areas.
- Students who score below the 75%ile in any subskill of the Stanford 9 at the end of a given year will have made at least a 20% gain in that subskill by the next year.
- Using the 1999 scores as a baseline, students will gain at least one year of growth as measured by the Stanford 9 in all core subjects.
- Areas of weakness indicated by the New York State assessment system scores will be addressed in school improvement plans, and at least a 20% increase in those areas will be achieved the following year.
- All students who receive a diploma will be placed in a post secondary program or a job within nimiety days after graduation.

SAMPLE MEASUREMENT TOOLS:

- **Quarterly assessments of student performance.**
- **Test results: Stanford 9, State assessment system.**
- **Juried exhibitions of student work project.**

OBJECTIVE 2

To Ensure that All Students Achieve Proficiency in Key Skills and Orientations.

EXPECTATIONS:

All students will become:

Proficient Problem Solvers
Self-Directed and Empowered Learners
Responsible and Effective Communicators
Successful Members of Multiple Communities
Producers of Quality Work

STRATEGIES FOR ATTAINMENT:

- Learning activities are designed to develop these skills and orientations, both through directly focusing on them and by integrating them within the teaching and learning process in all areas.
- The effective integration of technology to enhance student proficiency in solving problems, learning, communicating, working with others, and producing quality work.
- Staff to refine teaching and curriculum implementation uses assessment data.
- Communication with and involvement of parents as educational partners.

PROGRESS INDICATORS:

- All students will attain at least the Apprentice level of proficiency in each area by the end of the school year.
- At least 75% of the students assessed at the Apprentice level at the end of the first trimester will advance to Proficient level by the end of the school year.
- Frequent feedback to parents will indicate progress in developing these skills and orientations.

MEASUREMENT TOOLS:

- Quarterly trimester assessments of student performance.
- Student portfolios.
- Juried exhibitions of student work.
- Stanford 9 and State assessments.

3 SCHOOL PERFORMANCE

OBJECTIVE 1

To Actively Pursue the School's Mission and Philosophy.

EXPECTATIONS:

The mission statement includes the following evaluative criteria for the school's educational program:

- It is challenging to students.
- It is interdisciplinary.
- It allows students to achieve their maximum potential.
- It provides for a learning process that is:
- Project based.
- Participatory.
- Relevant.
- Applied.

STRATEGIES FOR ATTAINMENT:

- The School's Charter is a working document, and it will be referred to in making day-to-day decisions.
- Staff uses the mission statement and standards as a primary guide for developing and evaluating learning activities.
- The mission has been actively communicated to parents, staff, and board members, who work collaborative to provide leadership in achieving it.

PROGRESS INDICATORS:

- Clear examples of the evaluative criteria in action will be documented through the evaluation process.
- Parent and student survey responses will provide evidence that each of these criteria is being met.

MEASUREMENT TOOLS:

- The school portfolio

- Student portfolios
- Documentation of examples
- Parent and student surveys
- Independent evaluation of the curriculum units.

OBJECTIVE 2

To Implement a Standards-Based Curriculum.

EXPECTATIONS:

Beacon is committed to implementing standards outlined in this proposal. The school's curriculum will be aligned with the New York Curriculum Standards .

STRATEGIES FOR ATTAINMENT:

- On going work sessions, professional development and summer institutes with staff teams.
- Student portfolios will contain examples of student work related to the standards.
- Standardized test results.
- State assessment results.

PROGRESS INDICATORS:

- Performance standards and rubrics for each area will be in written form.
- Rubrics will be used to assess student performance in all areas.

MEASUREMENT TOOLS:

- Staff consensus on performance standards and rubrics.
- Board approval of performance standards and rubrics.
- External Evaluation Consultant will review and critique the standards and rubrics.

OBJECTIVE 3

To Foster a School Climate and Culture that Supports Achievement of the School's Mission.

EXPECTATIONS:

The climate and culture of a school are important factors in achieving its mission. The school's mission requires a climate and culture that allows all students to focus on achieving their full potential, meeting high standards, and acquiring skills and orientations that will prepare them for achieving success in all adult roles. Beacon expects all students to contribute positively to a climate and culture of respect, safety, cooperation, and personal and shared responsibility.

STRATEGIES FOR ATTAINMENT:

- The two major rules of conduct at Beacon Schools are Safety and Respect for Others.
- In addition, a number of "Ground Rules" have been established to guide student behavior and communicate values related to the school community.
- Staff consistently intervenes when student behaviors violate safety and respect.
- Conflict resolution strategies are used with students to solve problems and build skills.
- Morning class and weekly family meetings are used to handle and solve problems in the community.
- Students are encouraged to be leaders among their peers, through all-school meetings and other activities.

PROGRESS INDICATORS:

- The number of discipline incidents in-school suspension, assignment to the Saturday program for disciplinary reasons, etc. will decrease throughout the year and across years for older students.
- Students will demonstrate recognition of these core values.

MEASUREMENT TOOLS:

- Discipline records.
- Attendance records.
- Student surveys.
- Examples of student work related to community values and expectations.
- Descriptions of incidents where student behavior problems were handled in accordance with the values and expectations of the school.

EXHIBIT D

INSURANCE SCHEDULE

Minimum general liability insurance:

$1,000,000 per occurrence

$2,000,000 aggregate

EXHIBIT E

ALTERNATE DISPUTE RESOLUTION PROCEDURE

A. The Board and Beacon agree that the existence and details of a dispute notwithstanding, both parties shall continue without delay their performance hereunder, except for any performance which may be directly affected by such dispute.

B. Either party shall notify the other party that a dispute exists between them. Such notification shall be in writing and shall identify the article and section of the Agreement that is in dispute and the grounds for the position that such article and section is in dispute. The matter shall be immediately submitted to the Board's Chairperson and Beacon's Chief Operating Officer, or their respective designees, for further consideration and discussions to attempt to resolve the dispute.

C. In the event these representatives are unable to resolve the dispute informally pursuant to this procedure within 30 days after the date of notification by one to the other of the existence of such dispute, then either party may elect to submit the matter to the entire Board for its consideration. The submission to the Board shall be made in writing to the other party no later than 40 days after the initial date of notification by one party to the other of the existence of the dispute.

D. In the event that the matter is not submitted to the Board, or if the matter has been submitted to the Board and the Board and Beacon have not been able to resolve the matter within 30 days following submission of the dispute to the Board, then the matter shall be submitted to final and binding arbitration, as provided below.

E. The matter shall be submitted to arbitration by notice in writing to the other party. Such notice shall be submitted no later than 40 days after the initial date of the notification of the existence of the dispute, if the matter has not been submitted to the Board under paragraph "C", and no later than 80 days after the initial date of notification of the existence of the dispute if the matter has been submitted to the Board under paragraph "C".

F. Any and all disputes which can not be resolved informally shall be settled by final and binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, except as otherwise expressly provided herein or in the parties' agreement or as otherwise agreed to in writing by the parties, or to the extent inconsistent with the requirements of state law. The parties expressly agree that the arbitrator(s) shall be required to render a written opinion concerning the matters in controversy, together with their award. The arbitration shall take place in New York, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof, in accordance with the laws of the State of New York.

G. Each party shall pay one-half of the reasonable fees and expenses of the neutral arbitrator. All other fees and expenses of each party, including without limitation, the fees and expenses of its counsel, witnesses and others acting for it, arbitrators not jointly appointed, shall be paid by the party incurring such costs.

H. The arbitrator(s) shall have no authority to add to, delete from, or otherwise modify any provision of this Agreement or the Beacon School Design, or to issue an award having such effect.

I. Except as otherwise expressly provided therein, this procedure shall not apply to disputes arising under Article XIV, Sections B(l) and E(3) of the parties' Agreement.

	Services Required	Street Address	City	Zip
Beacon Education Management, Inc.				
Chelmsford Public Charter School	Full service	197 Littleton Road	Chelmsford, MA	1824
Rising Tide Charter School	Full service	6 Resnik Road	Plymouth, MA	2360
Engelmann Charter School	Full service	2952 N. Oxford Street	Claremont, NC	28610
Southwest Community Charter School	Full service	712 E. 69th Street	Kansas City, MO	64131
City On A Hill LIMITED SERVICE	Bookkeeping and admin support	320 Huntington Avenue	Boston, MA	02115-5019
Roxbury Preparatory Charter School LIMITED SERVICE	Bookkeeping and admin support	120 Fisher Avenue	Roxbury, MA	2120
Charlotte Community LIMITED SERVICE	Bookkeeping and admin support	926 Elizabeth Avenue	Charlotte, NC	28204
Beacon Education Management -- Michigan, Inc.				
Conner Creek Roseville	Full service	16911 Eastland	Roseville, MI	48066
Conner Creek Warren	Full service	8525 Cole Avenue	Warren, MI	48093
Chandler Park I Academy	Full service	4901 Haverhill	Detroit, MI	48224
Chandler Park II Academy	Full service	897 Phillip Avenue	Detroit, MI	48215
Chandler Park III Academy	Full service	19370 Greenfield	Detroit, MI	48235
Crossroads Academy	Full service	215 North State	Big Rapids, MI	49307
Great Lakes Academy	Full service	120 East Wilde Street	Pontiac, MI	48342
Learning Center Academy	Full service	9930 Burlingame	Byron Center, MI	49315
Renaissance Academy	Full service	2797 South Isabella Road	Mt. Pleasant	48858
West Mich Acad Arts/Academics	Full service	17350 Hazel Street	Spring Lake , MI	49456
Huron Academy	Full service	11455 Metro Parkway	McComb County, MI	48312
Landmark Academy	Full service	4800 Lapeer Road	Port Huron, MI	48074
White Pine Academy	Full service	112 Woodworth Street	Leslie, MI	49251
New Directions Academy	Full service	196 Oakland Avenue	Pontiac, MI	48343
Hope Academy	Educ program, personnel	10100 Grand River	Detroit, MI	48204
Detroit Community AcademyLIMITED SERVICE	Bkkping, admin support	9331 Granville Avenue	Detroit, MI	48228
New Beginnings Academy	Full service, co mngmt	2146 Moeller	Ypsilanti, MI	48198

Crossroads Charter Academy

Big Rapids, Michigan

Audited General Purpose Financial Statements

June 30, 1999

CROSKEY, LANNI & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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CROSKEY, LANNI & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

DAVID M. CROSKEY, C.P.A.
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TELEPHONE (248) 844-8000
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Chandler Park Academy

We have audited the accompanying general purpose financial statements of Chandler Park Academy as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of Chandler Park 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 generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of Chandler Park Academy at June 30, 1999, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 1999 on our consideration of Chandler Park Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Croskey, Lanni & Company, P.C.

September 15, 1999
Rochester Hills, Michigan

CHANDLER PARK ACADEMY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

ASSETS

	Governmental Fund Type	Fiduciary Fund Type	Account Groups	
	General	Agency	General Long-term Debt	General Fixed Assets
Cash	$ 220,022	$ 1,320	$ -	$ -
Due from other governmental units	425,265	-	-	-
Prepaid items	24,271	-	-	-
Building and equipment	-	-	-	465,192
Amount to be provided for retirement of general long-term debt	-	-	230,097	-
Total assets	$ 669,558	$ 1,320	$ 230,097	$ 465,192

LIABILITIES AND FUND BALANCES

LIABILITIES				
Accounts payable	$ 3,090	$ -	$ -	$ -
Note payable	249,965	-	-	-
Accrued expenses	133,996	-	-	-
Due to student groups	-	1,320	-	-
Long-term obligations payable	-	-	230,097	-
Total liabilities	387,051	1,320	230,097	-
FUND BALANCES				
Investment in general fixed assets	-	-	-	465,192
Unreserved:				
Undesignated	282,507	-	-	-
Total liabilities and fund balances	$ 669,558	$ 1,320	$ 230,097	$ 465,192

See accompanying notes to financial statements

CHANDLER PARK ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 1999

REVENUES		
Local sources	$	3,622
State sources		2,327,420
Federal sources		-
Interest and other		18,789
OTHER FINANCING SOURCES		
Proceeds of long-term debt		136,787
Total general fund revenues and other financing sources		2,486,618
EXPENDITURES		
Middle school		1,117,152
Guidance services		52,909
Library		21,607
Board of education		16,963
Executive administration		203,135
Building administration		260,534
Leases		230,000
Other business services		16,283
Operation and maintenance		157,366
Capital outlay		224,419
Debt principal and interest		141,947
Total general fund expenditures		2,442,315
Excess of revenues and other financing sources over expenditures		44,303
Fund balance, July 1, 1998		238,204
Fund balance, June 30, 1999	$	282,507

See accompanying notes to financial statements

CHANDLER PARK ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 1999

	Budget	Actual	Over (Under) Budget
REVENUES			
Local sources	$ -	$ 3,622	$ 3,622
State sources	2,346,408	2,327,420	(18,988)
Federal sources	39,305	-	(39,305)
Interest and other	-	18,789	18,789
OTHER FINANCING SOURCES			
Proceeds of long-term debt	-	136,787	136,787
Total general fund revenues and other financing sources	2,385,713	2,486,618	100,905
EXPENDITURES			
Middle school	1,106,850	1,117,152	10,302
Guidance services	48,810	52,909	4,099
Library	24,570	21,607	(2,963)
Board of education	20,500	16,963	(3,537)
Executive administration	226,546	203,135	(23,411)
Building administration	334,928	260,534	(74,394)
Leases	240,000	230,000	(10,000)
Other business services	8,500	16,283	7,783
Operation and maintenance	168,670	157,366	(11,304)
Capital outlay	100,900	224,419	123,519
Debt principal and interest	28,550	141,947	113,397
Total general fund expenditures	2,308,824	2,442,315	133,491
Excess of revenues and other financing sources over expenditures	76,889	44,303	(32,586)
Fund balance, July 1, 1998	238,204	238,204	-
Fund balance, June 30, 1999	$ 315,093	$ 282,507	$ (32,586)

See accompanying notes to financial statements

CHANDLER PARK ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Chandler Park Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Chandler Park Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on May 30, 1997, and began operation in July 1997.

In May 1997, the Academy entered into a five-year contract with the Saginaw Valley State University Board of Control to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Control is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Control three percent of state aid as administrative fees. The total administrative fees paid for the year ended June 30, 1999 were approximately $67,500

In May, 1997 the Academy entered into a two year agreement with JCR & Associates "JCR". Under the terms of this agreement, JCR provides a variety of services including management curriculums, educational programs and teacher training. The Academy is obligated to pay JCR six percent of its state school aid revenue. The total paid for these services amounted to approximately $135,500 for the year ended June 30, 1999.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

CHANDLER PARK ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Accounting

The accounts of the Academy are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Fund

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Fiduciary Fund

The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an Activity Fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Account Groups

Account groups are not funds, they do not reflect available financial resources and related liabilities or the measurement of results of operations but are the Academy's accounting records of the general fixed assets and general long-term debt. The General Fixed Assets Account Group is used to maintain records of the cost of property owned by the Academy. The General Long-Term Debt Account Group is used to record the outstanding debt and other noncurrent obligations of the Academy.

CHANDLER PARK ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

General Fixed Assets - General fixed assets are recorded as expenditures in the governmental fund in the year payment is made or expenditure accrued. Such assets are recorded at cost or, if donated, at their estimated fair values on the date donated in the General Fixed Assets Account Group. No depreciation has been provided on the general fixed assets.

Long-Term Liabilities - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

Basis of Accounting

Governmental and Agency Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.

b. Payments for inventoriable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.

c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.

d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Other accounting policies are disclosed in other notes to financial statements.

CHANDLER PARK ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 2 - BUDGETS

The Academy formally adopted a General Fund budget by function for the year ended June 30, 1999. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not formally recorded. During the year ended June 30, 1999, the budget was amended in a legally permissible manner.

NOTE 3 - DEPOSITS

The Academy's cash at June 30, 1999 is composed of deposit accounts amounting to $221,342.

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at $274,751. Federal depository insurance covered $103,183 of deposits at June 30, 1999.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State aid	$ 407,227
LEA supplement	5,471
At risk	12,484
Gifted programs	83
Total	$ 425,265

NOTE 5 – NOTE PAYABLE

The Academy has obtained a line of credit through a bank. The line of credit bears interest at 8.25% per annum and is payable on demand. Total availability under the line of credit is $250,000. Security for the line of credit had been provided through the real estate of a related third party.

CHANDLER PARK ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 6 – ACCRUED EXPENSES

Accrued expenses may summarized as follows:

Management fee	$ 24,434
SVSU oversight fee	12,217
Payroll	82,855
Payroll taxes	6,338
Benefits	8,152
Total	$ 133,996

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy for the year ended June 30, 1999.

	Start-up Loan	Capital Lease 1	Capital Lease 2	Total
Balance - July 1, 1998	$ 40,300	$ 157,680	$ -	$ 197,980
Additions	-	-	136,787	136,787
Retirements & payments	(40,300)	(41,705)	(22,665)	(104,670)
Balance - June 30, 1999	$ -	$ 115,975	$ 114,122	$ 230,097

Subsequent to the issuance of the June 30, 1998 general purpose financial statements, it was discovered that the Academy was indebted to a creditor in the amount of $40,300. The funds were expended in prior years for normal operating costs. However, this liability was not reflected in the Academy's general long-term debt account group as of June 30, 1998.

During the year ended June 30, 1999, the loan was repaid in full by the Academy. As noted above, the summary of long-term obligations has been modified to acknowledge and reflect the extinguishment of this debt.

CHANDLER PARK ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 8 - CAPITAL LEASE AGREEMENTS

Following are maturities of long-term obligations for each of the next four years:

2000	$ 80,355
2001	87,575
2002	52,037
2003	10,130
Total	$ 230,097

The Academy is the lessee of various classroom and office equipment held under capital lease agreements. The leases are collateralized by the equipment and have terms that expire during the year ended June 30, 2003.

Minimum future lease payments under capital leases as of June 30, 1999 for each of the next four years and in the aggregate are:

2000	$ 97,581
2001	97,581
2002	55,287
2003	10,297
Total minimum lease payment	260,746
Less amount representing interest	(30,649)
Present value of minimum lease payments	$ 230,097

NOTE 9 - LEASE AGREEMENTS

The Academy has entered into two non cancelable operating lease agreements with separate unrelated third parties for building and land for its locations on Philip Street and Warren Avenue. The landlords are responsible for utilities, property taxes and repairs. The Academy is required to maintain adequate property and liability insurance coverage as well as maintain the properties in like condition as at the inception of the lease terms. Both properties are held under four year non-cancelable lease terms which began in August of 1998. Monthly rental payments for the Philip Street and Warren Avenue properties total $10,000 and $12,500, respectively. The Warren Avenue property is also subject to annual rental increases proportional to increases in student enrollment.

CHANDLER PARK ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 9 - LEASE AGREEMENTS - Continued

The Academy also leases a photocopier from an unrelated party under an operating lease. This lease expires in December, 2001 and requires payments of $298 per month during this period.

NOTE 10 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets is as follows:

	Balance July 1, 1998	Additions	Balance June 30, 1999
Equipment under capital lease	$ 194,348	$ 136,787	$ 331,135
Leasehold improvements	-	25,308	25,308
Equipment	46,425	62,324	108,749
Total	$ 240,773	$ 224,419	$ 465,192

NOTE 11 - PENSION PLAN

All Academy personnel, employees of JCR, are eligible to participate in a pension plan established by JCR which qualifies under the provisions of Section 401 of the Internal Revenue Code. Employer contributions under this plan are discretionary and amounted to 8% of salaries or approximately $21,300 for the year ended June 30, 1999. These contributions are fully vested with the employee after six years of service. Employees may also contribute up to 15% of their salaries under the terms of this plan.

NOTE 12 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

CHANDLER PARK ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 13 - YEAR 2000 ISSUE (UNAUDITED)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely effect the academy's operations as early as fiscal year end 1999.

The Academy generally uses widely available computer software which is updated frequently and as such does not anticipate any problems as a result of this issue, however no formal testing or evaluation has been performed.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Academy is or will be year 2000 ready, that the Academy's remediation efforts will be successful in part or in whole, or that parties with whom the Academy does business will be year 2000 ready.

NOTE 14 - SUBSEQUENT EVENTS

The Academy renewed its management contract with JCR & Associates on July 1, 1999 for another two years.

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To the Board of Directors
of Chandler Park Academy

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

We have audited the accompanying general purpose financial statements of Chandler Park Academy for the year ended June 30, 1999. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of general purpose financial statements of Chandler Park Academy. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Croskey, Lanni & Company, P.C.

September 15, 1999
Rochester Hills, Michigan

CHANDLER PARK ACADEMY

SCHEDULE OF REVENUES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Local sources		
Latch key	$	3,622
State sources		
At risk		69,078
Gifted programs		460
State aid		2,238,732
LEA supplement		19,150
Total State sources		2,327,420
Interest and other		18,789
Other financing sources		
Proceeds from long-term debt		136,787
Total general fund revenues and other financing sources	$	2,486,618

See accompanying notes to financial statements

CHANDLER PARK ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Instruction		
Middle school:		
Salaries	$	741,090
Benefits		131,305
Payroll taxes		66,369
Workshops and conferences		6,435
Teaching supplies		31,181
Textbooks and materials		89,373
Repairs and maintenance		1,264
Dues and memberships		4,128
Equipment rental		734
Travel		24,075
Miscellaneous		21,198
Total middle school		1,117,152
Guidance services		
Salaries		42,267
Benefits		3,125
Payroll taxes		3,306
Textbooks and materials		2,583
Miscellaneous		1,628
Total guidance services		52,909
Library		
Books		17,031
Periodicals		3,928
Supplies		648
Total library		21,607
Board of education		
Legal services		3,575
Audit services		7,700
Advertising		2,474
Printing and binding		1,905
Miscellaneous		1,309
Total board of education		16,963
Executive administration		
SVSU oversight		67,162
Management fees		135,147
Bank fees		826
Total executive administration		203,135

See accompanying notes to financial statements

CHANDLER PARK ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 1999

Building Administration	
Salaries	162,284
Benefits	27,520
Payroll taxes	14,711
Workshops and conferences	2,261
Postage	3,261
Repair and maintenance	17,322
Supplies and other	21,875
Dues and memberships	1,973
Miscellaneous	9,327
Total building administration	260,534
Leases	
Lease of building	230,000
Other business services	
Liability insurance	10,008
Miscellaneous	6,275
Total other business services	16,283
Operation and maintenance	
Salaries	39,609
Benefits	9,476
Payroll taxes	3,868
Telephone	10,408
Waste removal	1,794
Maintenance	64,603
Building repair	10,300
Outside security service	14,682
Miscellaneous	2,626
Total operation and maintenance	157,366
Capital outlay	
Middle school	41,509
Guidance services	136,787
Library	6,275
Building administration	28,756
Operation and maintenance	11,092
Total capital outlay	224,419
Debt principal and interest	141,947
Total general fund expenditures	$ 2,442,315

See accompanying notes to financial statements

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Report Letter on Compliance with Laws and Regulations and Internal Control - General Purpose Financial Statements

To the Board of Directors
of Chandler Park Academy

We have audited the financial statements of the Chandler Park Academy as of and for the year ended June 30, 1999, and have issued our report thereon dated September 15, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 Chandler Park Academy'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 Chandler Park Academy'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 certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described as follows:

Petty Cash

We noted that the petty cash account was not being utilized solely as a petty cash account. We found that some grant dollars as well as student activity funds were being deposited to petty cash. These items need to be kept separately in order to properly reflect grant as well as student activity funds received and expended.

Fixed Assets

We also noted that management does not maintain any lists of fixed assets purchased. As assets are acquired, they should be added to a list showing a detailed description of the assets, the dates purchased, and the purchase prices. As any assets are disposed of, they should be removed from this list. The maintenance of such a list is extremely important in ensuring that accurate amounts are reflected in the general purpose financial statements.

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 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 reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described above are considered material weaknesses.

This report is intended solely for the information and use of management, the board of directors and others within the Academy and is not intended to be and should not be used by anyone other then these specified parties.

Croskey, Lanni & Company, P.C.

September 15, 1999
Rochester Hills, Michigan

Crossroads Charter Academy

Big Rapids, Michigan

Audited General Purpose Financial Statements

June 30, 1999

CROSKEY, LANNI & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Crossroads Charter Academy

We have audited the accompanying general purpose financial statements of Crossroads Charter Academy as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of Crossroads Charter 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 generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of Crossroads Charter Academy at June 30, 1999, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 1999 on our consideration of Crossroads Charter Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Croskey, Lanni & Company, P.C.

Croskey, Lanni & Company, P.C.

September 14, 1999
Rochester Hills, Michigan

CROSSROADS CHARTER ACADEMY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

ASSETS

	Governmental Fund Type	Account Groups	
	General	General Long-term Debt	General Fixed Assets
Cash	$ 195,685	$ -	$ -
Due from other governmental units	341,665	-	-
Prepaid items	5,674	-	-
Building and equipment	-	-	515,539
Amount to be provided for retirement of general long-term debt	-	530,576	-
Total assets	$ 543,024	$ 530,576	$ 515,539

LIABILITIES AND FUND BALANCES

LIABILITIES			
Accounts payable	$ 11,078	$ -	$ -
Note payable	50,000	-	-
Accrued expenses	143,091	-	-
Long-term obligations payable	-	530,576	-
Total liabilities	204,169	530,576	-
FUND BALANCES			
Investment in general fixed assets	-	-	515,539
Unreserved:			
Undesignated	338,855	-	-
Total liabilities and fund balances	$ 543,024	$ 530,576	$ 515,539

See accompanying notes to financial statements

CROSSROADS CHARTER ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 1999

REVENUES		
Local sources	$	11,646
State sources		1,882,113
Federal sources		112,819
Interest and other		13,841
OTHER FINANCING SOURCES		
Proceeds of long-term debt		550,000
Total general fund revenues and other financing sources		2,570,419
EXPENDITURES		
Elementary school		887,433
Middle school		91,378
Guidance services		532
Library		31,426
Board of education		3,001
Executive administration		232,566
Building administration		152,344
Business services		14,038
Operation and maintenance		237,701
Capital outlay		515,539
Debt principal and interest		65,606
Total general fund expenditures		2,231,564
Excess of revenues and other financing sources over expenditures		338,855
Fund balance, July 1, 1998		-
Fund balance, June 30, 1999	$	338,855

See accompanying notes to financial statements

CROSSROADS CHARTER ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 1999

	Budget	Actual	Over (Under) Budget
REVENUES			
Local sources	$ -	$ 11,646	$ 11,646
State sources	1,852,460	1,882,113	29,653
Federal sources	110,000	112,819	2,819
Interest and other	35,000	13,841	(21,159)
OTHER FINANCING SOURCES			
Proceeds of long-term debt	450,000	550,000	100,000
Total general fund revenues and other financing sources	2,447,460	2,570,419	122,959
EXPENDITURES			
Elementary school	1,025,554	887,433	(138,121)
Middle school	-	91,378	91,378
Guidance services	5,000	532	(4,468)
Library	40,320	31,426	(8,894)
Board of education	41,000	3,001	(37,999)
Executive administration	254,319	232,566	(21,753)
Building administration	168,217	152,344	(15,873)
Business services	16,560	14,038	(2,522)
Operation and maintenance	246,827	237,701	(9,126)
Capital outlay	521,100	515,539	(5,561)
Debt principal and interest	45,074	65,606	20,532
Total general fund expenditures	2,363,971	2,231,564	(132,407)
Excess of revenues and other financing sources and expenditures	83,489	338,855	255,366
Fund balance, July 1, 1998	-	-	-
Fund balance, June 30, 1999	$ 83,489	$ 338,855	$ 255,366

See accompanying notes to financial statements

CROSSROADS CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Crossroads Charter Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Crossroads Charter Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on June 5, 1998, and began operation in July 1998.

In June 1998, the Academy entered into a five-year contract with Grand Valley State University's Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Grand Valley State University's Board of Trustees three percent of state aid as administrative fees. The total administrative fees paid for the year ended June 30, 1999 were approximately $53,700.

In February 1998, the Academy entered into a five year agreement with JCR & Associates "JCR". Under the terms of this agreement, JCR provides a variety of services including management curriculums, educational programs and teacher training. The Academy is obligated to pay JCR ten percent of its state school aid revenue during the first year of this contract and seven percent thereafter. The total paid for these services accumulated to approximately $178,900 for the year ended June 30, 1999.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the entity does not contain component units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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The accounts of the Academy are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

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Account groups are not funds and they do not reflect available financial resources and related liabilities or the measurement of results of operations, but are the Academy's accounting records of the general fixed assets and general long-term debt. The General Fixed Assets Account Group is used to maintain records of the cost of property owned by the Academy. The General Long-Term Debt Account Group is used to record the outstanding debt and other noncurrent obligations of the Academy.

General Fixed Assets - General fixed assets are recorded as expenditures in the governmental fund in the year payment is made or expenditure accrued. Such assets are recorded at cost or, if donated, at their estimated fair values on the date donated in the General Fixed Assets Account Group. No depreciation has been provided on the general fixed assets.

Long-Term Liabilities - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

CROSSROADS CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting

Governmental and Agency Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.

b. Payments for inventoriable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.

c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.

d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon continued qualification for such aid.

Other accounting policies are disclosed in other notes to financial statements.

NOTE 2 - BUDGETS

The Academy formally adopted a General Fund budget by function for the year ended June 30, 1999. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end and encumbrances are not formally recorded. During the year ended June 30, 1999, the budget was amended in a legally permissible manner.

CROSSROADS CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 3 - DEPOSITS

The Academy's cash at June 30, 1999 is composed of deposit accounts amounting to $195,685

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at $254,084. Federal depository insurance covered $187,247 of deposits at June 30, 1999.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts owed from governmental units consist of the following:

State aid receivable	$ 322,403
LEA supplemental receivable	4,728
At risk receivable	14,534
Total	$ 341,665

NOTE 5 – NOTE PAYABLE

The Academy has obtained a business loan through a bank. The loan is payable $25,000 per month, plus interest at 9.5% through August, 1999. Security for the loan is provided through future state school aid payments.

NOTE 6 - ACCRUED EXPENSES

Amounts accrued at year end consist of the following:

Management fee	$ 32,713
GVSU oversight fee	9,814
Interest	6,751
Payroll	78,385
Benefits	9,297
Payroll taxes	6,131
Total accrued expenses	$ 143,091

CROSSROADS CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE

Outstanding Debt

The following is a summary on long-term obligations for the Academy for the year ended June 30, 1999.

	Mortgage Payable	Business Loan	Business Loan	Total
Balance - July 1, 1998	$ -	$ -	$ -	$ -
Additions	450,000	50,000	50,000	550,000
Retirements & payments	(19,424)	-	-	(19,424)
Balance - June 30, 1999	$ 430,576	$ 50,000	$ 50,000	$ 530,576

The mortgage payable to Chemical Bank bears interest at 5.83% per annum and payments are due on a monthly basis through June 1, 2003.

The academy has obtained two unsecured business loans from their management company bearing interest at 9% per annum and payable over twenty-four months beginning November 1, 1999.

Following are maturities of long-term obligations for each of the next five years:

2000	$ 45,424
2001	77,202
2002	42,660
2003	365,290
2004	-
Total	$ 530,576

NOTE 8 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets is as follows:

	Balance July 1, 1998	Additions	Balance June 30, 1999
Equipment	$ -	$ 135,539	$ 135,539
Building	-	380,000	380,000
Total	$ -	$ 515,539	$ 515,539

NOTE 9 - PENSION PLAN

All employees of the Academy are eligible to participate in a pension plan established by JCR which qualifies under the provisions of Section 401 of the Internal Revenue Code. Employer contributions under this plan are discretionary and amounted to 8% of salaries or approximately $48,100 for the year ended June 30, 1999. These contributions are fully vested with the employee after five years of service. Employees may also contribute up to 15% of their salaries under the terms of this plan.

One employee of the Academy participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined-benefit public employee retirement system governed by the State of Michigan. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The Academy's contributions to the MPSERS plan for the year ended June 30, 1999 were approximately $5,400.

NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

NOTE 11 - YEAR 2000 ISSUE (UNAUDITED)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the academy's operations as early as fiscal year end 1999.

The Academy generally uses widely available computer software which is updated frequently and as such does not anticipate any problems as a result of this issue, however no formal testing or evaluation has been performed.

Because of the unprecedented nature of the year 2000 issue its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Academy is or will be year 2000 ready, that the Academy's remediation efforts will be successful in part or in whole, or that parties with whom the Academy does business will be year 2000 ready.

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To the Board of Directors
of Crossroads Charter Academy

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

We have audited the accompanying general purpose financial statements of Crossroads Charter Academy for the year ended June 30, 1999. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not required part of general purpose financial statements of Crossroads Charter Academy. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Croskey, Lanni & Company, P.C.

September 14, 1999
Rochester Hills, Michigan

CROSSROADS CHARTER ACADEMY

SCHEDULE OF REVENUES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Local sources		
Rent	$	11,646
State sources		
State aid		1,772,419
LEA supplement		16,550
At risk funds		80,553
GVSU grants		12,591
Total state sources		1,882,113
Federal sources		
Charter school grant		60,000
Title I funds		52,819
Total federal sources		112,819
Interest and other		
Donations		7,465
Refunds/reimbursements		5,863
Interest		352
Other		161
Total interest and other		13,841
Other financing sources		
Proceeds from long-term debt		550,000
Total general fund revenues and other financing sources	$	2,570,419

See independent auditor's report on supplemental information

CROSSROADS CHARTER ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Instruction		
Elementary school		
Salaries	$	617,538
Benefits		94,206
Payroll taxes		45,852
Workshops and conferences		4,084
Teaching supplies		23,273
Textbooks and materials		93,563
Repairs and maintenance		1,168
Athletics		2,607
Dues and memberships		688
Miscellaneous		4,454
Total elementary school		887,433
Middle school		
Salaries		78,385
Benefits		6,997
Payroll taxes		5,996
Total middle school		91,378
Guidance services		
Contracted services		532
Library		
Salaries		5,794
Payroll taxes		443
Books and periodicals		22,202
Dues and memberships		1,379
Miscellaneous		1,608
Total library		31,426
Board of education		
Legal services		213
Advertising		2,540
Printing and other		248
Total board of education		3,001
Executive administration		
G.V.S.U. oversight fees		53,669
Management fees		178,897
Total executive administration		232,566

See independent auditor's report on supplemental information

CROSSROADS CHARTER ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 1999

Building administration	
Salaries	100,359
Benefits	16,468
Payroll taxes	5,624
Workshops and conferences	543
Postage and delivery	2,872
Dues and memberships	1,098
Office supplies	19,729
Repairs and maintenance	1,919
Miscellaneous	3,732
Total building administration	152,344
Business services	
Start up costs	2,066
Insurance	11,575
Bank fees	397
Total building	14,038
Operation and maintenance	
Salaries	51,777
Benefits	4,097
Payroll taxes	3,730
Utilities	53,496
Trash removal	277
Maintenance	24,847
Supplies and other	16,998
Leasehold improvements	80,064
Miscellaneous	2,415
Total operation and maintenance	237,701
Capital outlay	
Elementary school	105,650
Library	3,837
Building administration	406,052
Total capital outlay	515,539
Debt principal and interest	65,606
Total general fund expenditures	$ 2,231,564

See independent auditor's report on supplemental information

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Report Letter on Compliance with Laws and Regulations and Internal Control - General Purpose Financial Statements

To the Board of Directors
Crossroads Charter Academy

We have audited the general purpose financial statements of the Crossroads Charter Academy as of and for the year ended June 30, 1999, and have issued our report thereon dated September 14, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 Crossroads Charter Academy's general purpose 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 Crossroads Charter Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 general purpose financial statements being audited 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 operating that we consider to be material weaknesses.

This report is intended soley for the information and use of management, the board of directors and others within the Academy and is not intended to be and should not be used by anyone other than these specified parties.

Croskey, Lanni & Company, P.C.

September 14, 1999
Rochester Hills, Michigan

Great Lakes Academy

Pontiac, Michigan

Audited General Purpose Financial Statements

June 30, 1999

CROSKEY, LANNI & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Great Lakes Academy

We have audited the accompanying general purpose financial statements of Great Lakes Academy as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of Great Lakes 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 generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of Great Lakes Academy at June 30, 1999, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 1999 on our consideration of Great Lakes Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Croskey, Lanni & Company, P.C.

October 5, 1999
Rochester Hills, Michigan

GREAT LAKES ACADEMY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

ASSETS

	Governmental Fund Type	Fiduciary Fund Type	Account Groups	
	General	Agency	General Long-term Debt	General Fixed Assets
Cash	$ 145,094	$ 470	$ -	$ -
Due from other governmental units	330,091	-	-	-
Prepaid items	5,332	-	-	-
Inventory	8,817	-	-	-
Building and equipment	-	-	-	265,488
Amount to be provided for retirement of general long-term debt	-	-	102,752	-
Total assets	$ 489,334	$ 470	$ 102,752	$ 265,488

LIABILITIES AND FUND BALANCES

LIABILITIES				
Accounts payable	$ 21,523	$ -	$ -	$ -
Note payable	35,000	-	-	-
Accrued expenses	90,624	-	-	-
Due to student groups	-	470	-	-
Long-term obligations payable	-	-	102,752	-
Total liabilities	147,147	470	102,752	-
FUND BALANCES				
Investment in general fixed assets	-	-	-	265,488
Unreserved:				
Undesignated	342,187	-	-	-
Total liabilities and fund balances	$ 489,334	$ 470	$ 102,752	$ 265,488

See accompanying notes to financial statements

GREAT LAKES ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 1999

REVENUES		
Local sources	$	13,000
State sources		1,758,659
Interest and other		191
OTHER FINANCING SOURCES		
Proceeds of long-term debt		33,385
Total general fund revenues and other financing sources		1,805,235
EXPENDITURES		
Elementary school		844,753
Guidance services		45,914
Library		57,891
Board of education		14,289
Executive administration		172,613
Building administration		134,374
Leases		176,877
Other business services		5,188
Operation and maintenance		72,758
Capital outlay		112,400
Debt principal and interest		50,466
Total general fund expenditures		1,687,523
Excess of revenues and other financing sources over expenditures		117,712
Fund balance, July 1, 1998		224,475
Fund balance, June 30, 1999	$	342,187

See accompanying notes to financial statements

GREAT LAKES ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

	Budget	Actual	Over (Under) Budget
REVENUES			
Local sources	$ 13,000	$ 13,000	$ -
State sources	1,758,360	1,758,659	299
Federal sources	1,200	-	(1,200)
Interest and other	-	191	191
OTHER FINANCING SOURCES			
Proceeds of long-term debt	33,000	33,385	385
Total general fund revenues and other financing sources	1,805,560	1,805,235	(325)
EXPENDITURES			
Elementary school	764,404	844,753	80,349
Guidance services	46,197	45,914	(283)
Library	65,740	57,891	(7,849)
Board of education	18,000	14,289	(3,711)
Executive administration	262,503	172,613	(89,890)
Building administration	134,980	134,374	(606)
Leases	180,700	176,877	(3,823)
Other business services	13,500	5,188	(8,312)
Operation and maintenance	82,836	72,758	(10,078)
Capital outlay	49,800	112,400	62,600
Debt principal and interest	51,500	50,466	(1,034)
Total general fund expenditures	1,670,160	1,687,523	17,363
Excess of revenues and other financing sources over expenditures	135,400	117,712	(17,688)
Fund balance, July 1, 1998	224,475	224,475	-
Fund balance, June 30, 1999	$ 359,875	$ 342,187	$ (17,688)

See accompanying notes to financial statements

GREAT LAKES ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Great Lakes Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Great Lakes Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on April 16, 1997, and began operation in July 1997.

In May 1997, the Academy entered into a five-year contract with the Eastern Michigan University Board of Regents to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Regents is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Eastern Michigan University Board of Regents three percent of state aid as administrative fees. The total administrative fees paid for the year ended June 30, 1999 were approximately $52,500

In June, 1997 the Academy entered into a three year agreement with JCR & Associates "JCR". Under the terms of this agreement, JCR provides a variety of services including management curriculums, educational programs and teacher training. The Academy is obligated to pay JCR seven percent of its state school aid revenue. The total paid for these services amounted to approximately $119,000 for the year ended June 30, 1999.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

GREAT LAKES ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Accounting

The accounts of the Academy are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Fund

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Fiduciary Fund

The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an Activity Fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Account Groups

Account groups are not funds, they do not reflect available financial resources and related liabilities or the measurement of results of operations but are the Academy's accounting records of the general fixed assets and general long-term debt. The General Fixed Assets Account Group is used to maintain records of the cost of property owned by the Academy. The General Long-Term Debt Account Group is used to record the outstanding debt and other noncurrent obligations of the Academy.

GREAT LAKES ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

General Fixed Assets - General fixed assets are recorded as expenditures in the governmental fund in the year payment is made or expenditure accrued. Such assets are recorded at cost or, if donated, at their estimated fair values on the date donated in the General Fixed Assets Account Group. No depreciation has been provided on the general fixed assets.

Long-Term Liabilities - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

Basis of Accounting

Governmental and Agency Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.

b. Payments for inventoriable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.

c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.

d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Other accounting policies are disclosed in other notes to financial statements.

NOTE 2 - BUDGETS

The Academy formally adopted a General Fund budget by function for the year ended June 30, 1999. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not formally recorded. During the year ended June 30, 1999, the budget was amended in a legally permissible manner.

GREAT LAKES ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 3 - DEPOSITS

The Academy's cash at June 30, 1999 is composed of deposit accounts amounting to $145,564.

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at $162,263. All deposits were covered by federal depository insurance.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State aid	$ 321,425
Equity and excellence	8,666
Total	$ 330,091

NOTE 5 - INVENTORY

Inventory consists of uniform shirts purchased for resale to students. Inventory is stated at the lower of cost or market.

NOTE 6 – NOTE PAYABLE

The Academy has obtained a business loan through a bank. The loan is payable $17,500 per month, plus interest at 9.5% through August, 1999. Security for the loan is provided through future state school aid payments.

GREAT LAKES ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 7 – ACCRUED EXPENSES

Accrued expenses may summarized as follows:

Management fee	$ 21,731
EMU oversight fee	9,313
Payroll	47,921
Payroll taxes	3,666
Benefits	7,993
Total	$ 90,624

NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy for the year ended June 30, 1999.

	Capital Lease 1	Capital Lease 2	Total
Balance - July 1, 1998	$ 104,273	$ -	$ 104,273
Additions	-	33,385	33,385
Retirements & payments	(30,186)	(4,720)	(34,906)
Balance - June 30, 1999	$ 74,087	$ 28,665	$ 102,752

Following are maturities of long-term obligations for each of the next four years:

2000	$ 40,305
2001	43,725
2002	15,429
2003	3,293
Total	$ 102,752

GREAT LAKES ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 9 - CAPITAL LEASE AGREEMENTS

The Academy is the lessee of various classroom and office equipment held under capital lease agreements. The leases are collateralized by the equipment and have terms that expire during the year ended June 30, 2003.

Minimum future lease payments under capital leases as of June 30, 1999 for each of the next four years and in the aggregate are:

2000	$ 47,368
2001	47,368
2002	16,291
2003	3,358
Total minimum lease payment	114,385
Less amount representing interest	(11,633)
Present value of minimum lease payments	$ 102,752

NOTE 10 - LEASE AGREEMENTS

The Academy has entered into an operating lease agreement with an unrelated third party for building and land. The landlord is responsible for utilities, property taxes and repairs. The Academy is required to maintain adequate property and liability insurance coverage as well as maintain the property in like condition as at the inception of the lease term. Effective August 1, 1998, the lease agreement was amended in order to reflect a change in the amount of space leased. The rent for each term is based on the amount of square feet rented in the building. The Academy incurred rent expense of $165,700 for the year ended June 30, 1999. The lease term expires on August 1, 2002.

The Academy also leases gymnasium space from an unrelated third party. The rent is payable on a per usage basis. The Academy incurred rent expense in connection with this lease of $11,200 for the year ended June 30, 1999.

GREAT LAKES ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 11 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets is as follows:

	Balance July 1, 1998	Additions	Balance June 30, 1999
Equipment under capital lease	$ -	$ 33,385	$ 33,385
Equipment	191,585	40,518	232,103
Total	$ 191,585	$ 73,903	$ 265,488

NOTE 12 - PENSION PLAN

All employees of the Academy are eligible to participate in a pension plan established by JCR which qualifies under the provisions of Section 401 of the Internal Revenue Code. Employer contributions under this plan are discretionary and amounted to 8% of salaries or approximately $49,500 for the year ended June 30, 1999. These contributions are fully vested with the employee after five years of service. Employees may also contribute up to 15% of their salaries under the terms of this plan.

NOTE 13 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

GREAT LAKES ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 14 - YEAR 2000 ISSUE (UNAUDITED)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely effect the academy's operations as early as fiscal year end 1999.

The Academy generally uses widely available computer software which is updated frequently and as such does not anticipate any problems as a result of this issue, however no formal testing or evaluation has been performed.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Academy is or will be year 2000 ready, that the Academy's remediation efforts will be successful in part or in whole, or that parties with whom the Academy does business will be year 2000 ready.

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CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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To the Board of Directors
of Great Lakes Academy

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

We have audited the accompanying general purpose financial statements of Great Lakes Academy for the year ended June 30, 1999. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of general purpose financial statements of Great Lakes Academy. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Croskey, Lanni & Company, P.C.

October 5, 1999
Rochester Hills, Michigan

GREAT LAKES ACADEMY

SCHEDULE OF REVENUES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Local sources		
Equity and excellence grant	$	13,000
State sources		
At risk		56,984
Gifted programs		461
State aid		1,683,564
LEA supplement		14,688
Special education		2,962
Total State sources		1,758,659
Interest and other		191
Other financing sources		
Proceeds from long-term debt		33,385
Total general fund revenue and other financing sources	$	1,805,235

See independent auditor's report on supplemental information

GREAT LAKES ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Instruction		
Elementary school		
Salaries	$	622,013
Benefits		113,136
Payroll taxes		44,003
Workshops and conferences		6,712
Teaching supplies		25,889
Textbooks and materials		22,081
Repairs and maintenance		1,275
Dues and memberships		639
Travel		1,053
Miscellaneous		7,952
Total elementary school		844,753
Guidance services		
Salaries		32,984
Benefits		7,129
Payroll taxes		2,417
Workshops and conferences		460
Textbooks and materials		1,994
Miscellaneous		930
Total guidance services		45,914
Library		
Salaries		32,445
Benefits		5,383
Payroll taxes		2,419
Books		17,644
Total library		57,891
Board of education		
Legal services		5,865
Audit services		7,967
Miscellaneous		457
Total board of education		14,289
Executive administration		
EMU oversight		52,436
Management fees		118,965
Miscellaneous		1,212
Total executive administration		172,613

See independent auditor's report on supplemental information

GREAT LAKES ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 1999

Building administration	
Salaries	87,646
Benefits	12,188
Payroll taxes	6,668
Workshops and conferences	2,005
Postage	1,564
Repair and maintenance	6,490
Supplies and other	8,612
Dues and memberships	853
Miscellaneous	8,348
Total building administration	134,374
Leases	
Lease of building	165,677
Lease of gymnasium	11,200
Total leases	176,877
Other business services	
Liability insurance	5,101
Miscellaneous	87
Total other business services	5,188
Operation and maintenance	
Salaries	19,352
Benefits	1,879
Payroll taxes	1,616
Telephone	6,396
Waste removal	2,584
Maintenance	3,941
Building repair	26,496
Supplies	10,136
Miscellaneous	358
Total operation and maintenance	72,758
Capital outlay	
Elementary school	67,082
Library	2,761
Building administration	42,557
Total capital outlay	112,400
Debt principal and interest	50,466
Total general fund expenditures	$ 1,687,523

See independent auditor's report on supplemental information

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Report Letter on Compliance with Laws and Regulations and Internal Control - General Purpose Financial Statements

To the Board of Directors
of Great Lakes Academy

We have audited the financial statements of the Great Lakes Academy as of and for the year ended June 30, 1999, and have issued our report thereon dated October 5, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 Great Lakes Academy'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 Great Lakes Academy'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 reportable conditions that are also considered to 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 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 operating that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the board of directors and others within the Academy and is not intended to be and should not be used by anyone other then these specified parties.

Croskey, Lanni & Company, P.C.

October 5, 1999
Rochester Hills, Michigan

New Directions Institute

Financial Report

June 30, 1999

PLANTE & MORAN, LLP

New Directions Institute

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Independent Auditor's Report

To the Board of Education
New Directions Institute
Pontiac, Michigan

We have audited the accompanying general purpose financial statements of New Directions Institute as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the New Directions Institute's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of New Directions Institute at June 30, 1999, and the results of its operations for the year ended June 30, 1999, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 12, 1999, on our consideration of the New Directions Institute's internal control structure and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Plante & Moran, LLP

August 12, 1999

P&M 75 1924-1999

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Report Letter on Compliance With Laws and Regulations
and Internal Control – General Purpose Financial Statements

To the Board of Education
New Directions Institute
Pontiac, Michigan

We have audited the general purpose financial statements of the New Directions Institute as of and for the year ended June 30, 1999, and have issued our report thereon dated August 12, 1999. We conducted our audit in accordance with generally accepted auditing standards and these 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 whether the Institute'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 *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute'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 a material weakness.

P&M 75 1924-1999

To the Board of Education
New Directions Institute
Pontiac, Michigan

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

Plante & Moran, LLP

August 12, 1999

New Directions Institute

Combined Balance Sheet – All Governmental Fund Types and General Fixed Asset Account Groups
June 30, 1999

Assets	Governmental Fund Types		Account Groups	
	General Fund	Special Revenue	General Fixed Asset	General Long-Term Debt
Cash (Note 3)	$ 16,797	$ 23,920	$ -	$ -
Due from other governmental units	166,827	-	-	-
Equipment and furniture (Note 4)	-	-	497,376	-
Amounts to be provided for retirement of general long term debt	-	-	-	108,016
Total assets	$ 183,624	$ 23,920	$ 497,376	$ 108,016
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 91,056	$ -	$ -	$ -
Accrued expenses	53,564	-	-	-
Deferred revenue	-	23,920	-	-
Note payable (Note 5)	37,500	-	-	-
Long-term debt obligation (Note 6)	-	-	-	108,016
Total liabilities	182,120	23,920	-	108,016
Fund Balances				
Investment in general fixed assets	-	-	497,376	-
Fund balances – Unreserved and undesignated	1,504	-	-	-
Total fund balances	1,504	-	497,376	-
Total liabilities and fund balances	$ 183,624	$ 23,920	$ 497,376	$ 108,016

See Notes to Financial Statements.

New Directions Institute

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)
All Governmental Fund Types
Year Ended June 30, 1999

	Governmental Fund Types	
	General	Special Revenue
Revenue		
Local sources	$ 124,109	$ 11,433
State sources	779,772	-
Federal sources	23,715	58,578
Other Financing Sources		
Proceeds from sale of fixed asset	61,000	-
Proceeds from long-term debt	108,016	-
Operating transfer	-	9,952
Total revenue and other sources	1,096,612	79,963
Expenditures		
Instruction	318,682	21,377
Supporting services	443,697	58,586
Debt service	14,389	-
Capital outlay	6,804	-
Other Uses - Operating transfer	9,952	-
Total expenditures and other uses	793,524	79,963
Excess of Revenue and Other Sources Over Expenditures and Other Uses	303,088	-
Fund Balances (Deficit) – July 1, 1998	(301,584)	-
Fund Balances – June 30, 1999	$ 1,504	$ -

See Notes to Financial Statements.

New Directions Institute

General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual
Year Ended June 30, 1999

	Budget	Actual	Actual Over (Under) Budget
Revenue			
Local sources	$ 238,503	$ 124,109	$ (114,394)
State sources	778,887	779,772	885
Federal sources	23,069	23,715	646
Other Financing Source			
Proceeds from sale of fixed asset	-	61,000	61,000
Proceeds from long-term debt	-	108,016	108,016
Total revenue and other sources	1,040,459	1,096,612	56,153
Expenditures			
Instruction	335,464	318,682	(16,782)
Supporting services	379,786	443,697	63,911
Debt service	5,385	14,389	9,004
Capital outlay	7,000	6,804	(196)
Other Uses - Operating transfer	-	9,952	9,952
Total expenditures and other uses	727,635	793,524	65,889
Excess of Revenue and Other Sources Over Expenditures and Other Uses	312,824	303,088	(9,736)
Fund Balance (Deficit) - July 1, 1998	(301,584)	(301,584)	-
Fund Balance (Deficit) - June 30, 1999	$ 11,240	$ 1,504	$ (9,736)

See Notes to Financial Statements.

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the New Directions Institute (the Institute) conform to generally accepted accounting principles as applicable to charter school academies. The following is a summary of the significant accounting policies:

Reporting Entity

The Institute was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On January 27, 1997, the Institute entered into a five-year contract with Saginaw Valley State University Board of Control to charter a public school academy. The contract requires the Institute to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Control is the fiscal agent for the Institute and is responsible for overseeing the Institute's compliance with the contract and all applicable law. The Institute pays the Saginaw Valley State University Board of Control 3 percent of state aid as administrative fees. The total administrative fees for the period ended June 30, 1999, to the Saginaw Valley State University Board of Control was approximately $21,300.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the entity does not contain component units.

Fund Accounting

The accounts of the Institute are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report into generic fund types in two broad fund categories as follows:

Note 1 – Summary of Significant Accounting Policies (Continued)

Governmental Fund

Governmental funds are those funds through which most Institute functions typically are financed. The acquisition, use, and balances of the Institute's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the Institute pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of special revenue sources that are restricted to expenditure for specified purposes. The Special Revenue Funds, maintained by the Institute, are the Grants and the Food Service Funds. The annual operating surplus or deficit generated by these activities is transferred to or from the General Fund.

Account Groups

An account group is not a fund. It does not reflect available financial resources and related liabilities or the measurement of results of operations – but is the Institute's accounting record of the general fixed assets. The General Fixed Asset Account Group is used to maintain records of the cost of property owned by the Institute. The General Long-term Debt Account Group is used to record the outstanding notes payable by the Institute.

Basis of Accounting

Governmental funds utilize the modified-accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.

b. Principal and interest on general long-term debt are not recorded as expenditures until its due date.

c. Payments for inventoriable types of supplies, which are not significant at year-end, are recorded as expenditures at the time of purchase.

Note 1 – Summary of Significant Accounting Policies (Continued)

d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of state revenue per student. The foundation allowance is funded from state sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The foundation allowance is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law.

e. The Institute also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

General Fixed Assets – General fixed assets are recorded as expenditures in the governmental fund in the year payment is made or expenditure accrued. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated in the General Fixed Assets Account Group. No depreciation has been provided on general fixed assets.

Long-term Liabilities – Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

Other accounting polices are disclosed in other notes to financial statements.

Note 2 – Budgets

The budget statement (General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual) is presented on the same basis of accounting used in preparing the General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance. The budget has been adopted based on account detail. The budget has been reformatted to comply with presentation prescribed by Generally Accepted Accounting Principals and the State of Michigan 1022 Accounting Manual. The significant budget overruns are as follows:

Note 2 – Budgets (Continued)

	Budget	Actual
Supporting services	$ 379,786	$ 443,697
Debt service	5,385	14,389
Other uses	-	9,952

The Institute did not adopt a Special Revenue Fund budget for the year ended June 30, 1999, as required by Michigan law.

Note 3 – Deposit

The Institute's deposit consists of a bank checking account. The deposit was reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits-in-transit) at $44,907. The deposit was covered by federal depository insurance.

Note 4 – Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 1998	Additions - General Fund	Disposals - General Fund	Balance June 30, 1999
Equipment and furniture	$ 551,572	$ 6,804	$ (61,000)	$ 497,376

Note 5 – Note Payable

The note payable is a state anticipation note bearing interest at 3.65 percent and is due August 26, 1999.

Note 6 – Long-Term Debt

The following is a summary of the notes payable for the year ended June 30, 1999:

Balance - July 1, 1998	$ -
Additions	108,016
Balance - June 30, 1999	$ 108,016

The long-term debt is owed to the management company, is unsecured, bears no interest, and is due September 1, 2004. The payment schedule is as follows:

2000	$ 10,000
2001	15,000
2002	20,000
2003	25,000
2004	38,016
Total	$ 108,016

Note 7 – Management Agreement

The Institute entered into a management agreement. Effective June 30, 1999, the two parties agreed to terminate the agreement. The management company was responsible for all of the management, operation, administration, and education at the Institute. The Institute subcontracted all employees from the management company and reimbursed the management company for operating costs. In addition, the Institute paid a management fee of 10 percent of gross revenue excluding grants. The management company has agreed to 10 percent of state aid in management fees in the current year. The Institute entered into a new management agreement effective July 1, 1999.

Note 8 - Lease Agreement

The Institute has entered into an operating lease agreement for the building. The Institute is responsible for insurance, repairs, and maintenance related to the facilities. Rent expense is calculated on the high school lease expiring November 2001 as a percentage of State aid and a set amount per square foot of space leased and $32,000 a year for the elementary school lease expiring August 2009. The Institute incurred rent expense in connection with this lease of $149,866 for the year ended June 30, 1999. Minimum annual payments required under the leases are approximately as follows:

2000	$ 201,980
2001	$ 201,980
2002	$ 116,990
2003	$ 32,000
2004	$ 32,000
2005 and after	$ 160,000

Note 9 - Commitments

The Institute has committed to borrow $200,000 in a state aid anticipation note with an interest rate at 6.75 percent.

Note 10 - Risk Management

The Institute is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the management company (Note 7). The Institute has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Note 11 - Year 2000 Computer Issue (unaudited - not covered by audit opinion)

The Year 2000 issue is the result of shortcomings in the manner in which "year" information is stored and interpreted by many electronic data processing systems and other electronic equipment. Operations may be adversely affected if critical systems and equipment are not made Year 2000 compliant. The Year 2000 issue will impact not only internal operations, but also interactions with external parties, such as other governmental entities and critical vendors.

The Institute has identified the computer systems and electronic equipment that are critical to its operations, and the following is a summary of progress toward achieving Year 2000 compliance:

Internal Systems

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot ensure that the Institute is or will be Year 2000 ready or that its remediation efforts will be successful in whole or in part. However, management believes that it has instituted a plan that will minimize the impact that the Year 2000 issue may have on critical operations.

External Factors

There can be no assurance that organizations and governmental agencies with which the Institute interacts, including banks, vendors, major taxpayers and customers, and state and federal governments will be Year 2000 compliant. The Institute is currently in the process of obtaining assurances from these external organizations that their systems will be ready for the Year 2000. If any issues are identified, action plans will be instituted as necessary.

Please note that even if the systems of the Institute and all external parties are, in fact, Year 2000 compliant in a timely manner, problems could arise with communications between those systems if compliance is achieved through inconsistent approaches or methodologies.

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Report Letter on Auditor's Responsibilities

To the Board of Education
New Directions Institute
Pontiac, Michigan

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we make the following required disclosures related to our audit of the financial statement of New Directions Institute for the year ended June 30, 1999.

Auditor's Responsibility Under Generally Accepted Auditing Standards

The management of New Directions Institute has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of the management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of the Institute's management.

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

P&M 75 1924-1999

Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance With Laws and Regulations

In the process of a general purpose financial statement audit, we gain an understanding of the internal control structure of an entity as well as the laws and regulations having a direct and material effect on the entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Tests of controls and compliance with laws and regulations in a financial statement audit contribute to the evidence supporting our opinion on the general purpose financial statements. However, the limited purpose and scope of these tests are not sufficient to provide a basis for an opinion on the adequacy of the internal control structure or on compliance with laws and regulations.

The limited purpose of these tests in a general purpose financial statement audit may not meet the needs of some users of auditor's reports who require additional information on internal controls and on compliance with laws and regulations. To meet certain audit report users' needs, laws and regulations often prescribe testing and reporting on internal controls and compliance to supplement the coverage of these areas in a general purpose financial statement audit. No supplemental testing of and reporting on internal controls and compliance were performed.

Plante & Moran, LLP

August 12, 1999

Renaissance Public School Academy

Mount Pleasant, Michigan

Audited General Purpose Financial Statements

June 30, 1999

CROSKEY, LANNI & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Renaissance Public School Academy

We have audited the accompanying general purpose financial statements of Renaissance Public School Academy as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of Renaissance Public School 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 generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of Renaissance Public School Academy at June 30, 1999, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 1999 on our consideration of Renaissance Public School Academy' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Croskey, Lanni & Company, P.C.

September 16, 1999
Rochester Hills, Michigan

RENAISSANCE PUBLIC SCHOOL ACADEMY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

ASSETS

	Governmental Fund Type	Fiduciary Fund Type	Account Groups	
	General	Agency	General Long-term Debt	General Fixed Assets
Cash	$ 23,051	$ 2,758	$ -	$ -
Due from other governmental units	184,725	-	-	-
Prepaid items	10,874	-	-	-
Building and equipment	-	-	-	1,446,735
Amount to be provided for retirement of general long-term debt	-	-	1,325,774	-
Total assets	$ 218,650	$ 2,758	$ 1,325,774	$ 1,446,735

LIABILITIES AND FUND BALANCES

LIABILITIES				
Accounts payable	$ 98,362	$ -	$ -	$ -
Note payable	30,000	-	-	-
Accrued expenses	37,069	-	-	-
Due to student groups	-	2,758	-	-
Long-term obligations payable	-	-	1,325,774	-
Total liabilities	165,431	2,758	1,325,774	-
FUND BALANCES				
Investment in general fixed assets	-	-	-	1,446,735
Unreserved:				
Undesignated	53,219	-	-	-
Total liabilities and fund balances	$ 218,650	$ 2,758	$ 1,325,774	$ 1,446,735

See accompanying notes to financial statements

RENAISSANCE PUBLIC SCHOOL ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 1999

REVENUES		
State sources	$	788,811
Federal sources		19,306
Interest and other		8,483
Total general fund revenues		816,600
EXPENDITURES		
Elementary school		299,756
Board of education		39,456
Executive administration		88,576
Building administration		134,442
Operation and maintenance		40,690
Capital outlay		9,328
Debt principal and interest		136,707
Total general fund expenditures		748,955
Excess of revenues over expenditures		67,645
Fund deficit, July 1, 1998		(14,426)
Fund balance, June 30, 1999	$	53,219

See accompanying notes to financial statements

RENAISSANCE PUBLIC SCHOOL ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 1999

	Budget	Actual	Over (Under) Budget
REVENUES			
State sources	$ 809,926	$ 788,811	$ (21,115)
Federal sources	-	19,306	19,306
Interest and other	-	8,483	8,483
Total general fund revenues	809,926	816,600	6,674
EXPENDITURES			
Elementary school	330,675	299,756	(30,919)
Board of education	40,000	39,456	(544)
Executive administration	86,245	88,576	2,331
Building administration	143,434	134,442	(8,992)
Operation and maintenance	52,380	40,690	(11,690)
Capital outlay	9,500	9,328	(172)
Debt principal and interest	146,050	136,707	(9,343)
Total general fund expenditures	808,284	748,955	(59,329)
Excess of revenues over expenditures	1,642	67,645	66,003
Fund deficit, July 1, 1998	(14,426)	(14,426)	-
Fund balance, June 30, 1999	$ (12,784)	$ 53,219	$ 66,003

See accompanying notes to financial statements

RENAISSANCE PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Renaissance Public School Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Renaissance Public School Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on June 5, 1996, and began operation in July 1996.

In December 1995, the Academy entered into a five-year contract with Central Michigan University's Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Central Michigan University's Board of Trustees three percent of state aid as administrative fees. The total administrative fees paid for the year ended June 30, 1999 were approximately $22,900.

In May 1998, the Academy entered into a five year agreement with JCR & Associates "JCR". Under the terms of this agreement, JCR provides a variety of services including management curriculums, educational programs and teacher training. The Academy is obligated to pay JCR eight percent of its state school aid revenue. The total paid for these services accumulated to approximately $65,700 for the year ended June 30, 1999.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Accounting

The accounts of the Academy are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Fund

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Fiduciary Fund

The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an Activity Fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Account Groups

Account groups are not funds. They do not reflect available financial resources and related liabilities or the measurement of results of operations but are the Academy's accounting records of the general fixed assets and general long-term debt. The General Fixed Assets Account Group is used to maintain records of the cost of property owned by the Academy. The General Long-Term Debt Account Group is used to record the outstanding debt and other noncurrent obligations of the Academy.

RENAISSANCE PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

General Fixed Assets - General fixed assets are recorded as expenditures in the governmental fund in the year payment is made or expenditure accrued. Such assets are recorded at cost or, if donated, at their estimated fair values on the date donated in the General Fixed Assets Account Group. No depreciation has been provided on the general fixed assets.

Long-Term Liabilities - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

Basis of Accounting

Governmental and Agency Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.

b. Payments for inventoriable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.

c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.

d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Other accounting policies are disclosed in other notes to financial statements.

NOTE 2 - BUDGETS

The Academy formally adopted a General Fund budget by function for the year ended June 30, 1999. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not formally recorded. During the year ended June 30, 1999, the budget was amended in a legally permissible manner.

RENAISSANCE PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 3 - DEPOSITS

The Academy's cash at June 30, 1999 is composed of deposit accounts amounting to $25,809.

The above deposits were reflected in the accounts of the bank (without recognition of checks written but yet cleared or of deposits in transit) at $34,431. All deposits were covered by federal depository insurance.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts owed from governmental units consist of the following:

Title 1	$ 5,496
Charter school grant	13,810
State aid	133,815
LEA supplement	1,924
At risk receivable	25,956
Special education	3,724
Total	$ 184,725

NOTE 5 – NOTE PAYABLE

The Academy has obtained a business loan through a bank. The loan is payable $15,000 per month, plus interest at 9.5% through August, 1999. Security for the loan is provided through future state school aid payments.

RENAISSANCE PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 6 – ACCRUED EXPENSES

Amounts accrued at year end consist of the following:

Management fee	$ 10,859
CMU oversight	4,184
Payroll	19,961
Benefits	2,065
Total	$ 37,069

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy for the year ended June 30, 1999.

	Land Contract Payable	Capital Lease 1	Capital Lease 2	Total
Balance - July 1, 1998	$ 1,283,808	$ 61,761	$ 10,525	$ 1,356,094
Additions	-	-	-	-
Retirements & payments	(9,808)	(17,526)	(2,986)	(30,320)
Balance - June 30, 1999	$ 1,274,000	$ 44,235	$ 7,539	$ 1,325,774

The land contract to an unrelated third party bears interest at 7.0% per annum and payments of $8,610 are due on a monthly basis through December 1, 2027.

Following are maturities of long-term obligations for each of the next five years:

2000	$ 36,666
2001	39,220
2002	22,921
2003	17,997
2004	19,298
Thereafter	1,189,672
Total	$ 1,325,774

RENAISSANCE PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 8 - CAPITAL LEASE AGREEMENTS

The Academy is the lessee of various classroom and office equipment held under two capital leases. The leases are collateralized by the equipment, each bears interest at 6.5% and expire in the year ended June 30, 2002.

Minimum annual payments under capital leases as of June 30, 1999 for each of the next three years and in the aggregate are:

2000	$ 24,822
2001	24,822
2002	9,820
Total minimum lease payment	59,464
Less amount representing interest	(7,690)
Present value of minimum lease payments	$ 51,774

NOTE 9 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets is as follows:

	Balance July 1, 1998	Additions	Balance June 30, 1999
Equipment	$ 39,468	$ 9,328	$ 48,796
Equipment (under capital lease)	86,978	-	86,978
Building	1,310,961	-	1,310,961
Total	$ 1,437,407	$ 9,328	$ 1,446,735

NOTE 10 - PENSION PLAN

All employees of the Academy are eligible to participate in a pension plan established by JCR which qualifies under the provisions of Section 401 of the Internal Revenue Code. Employer contributions under this plan are discretionary and amounted to 8% of salaries or approximately $21,431 for the year ended June 30, 1999. These contributions are fully vested with the employee after five years of service. Employees may also contribute up to 15% of their salaries under the terms of this plan.

NOTE 11 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

NOTE 12 - YEAR 2000 ISSUE (UNAUDITED)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely effect the academy's operations as early as fiscal year end 1999.

The Academy generally uses widely available computer software which is updated frequently and as such does not anticipate any problems as a result of this issue, however no formal testing or evaluation has been performed.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Academy is or will be year 2000 ready, that the Academy's remediation efforts will be successful in part or in whole, or that parties with whom the Academy does business will be year 2000 ready.

CROSKEY, LANNI & COMPANY, P.C.
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To the Board of Directors
of Renaissance Public School Academy

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

We have audited the accompanying general purpose financial statements of Renaissance Public School Academy for the year ended June 30, 1999. Our audits was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not required part of general purpose financial statements of Renaissance Public School Academy. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Croskey, Lanni & Company, P.C.

September 16, 1999
Rochester Hills, Michigan

RENAISSANCE PUBLIC SCHOOL ACADEMY

SCHEDULE OF REVENUES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

State sources		
State aid	$	735,650
LEA supplement		6,735
At risk		25,956
Special education		20,470
Total state sources		788,811
Federal sources		
Charter school grant		13,810
Title 1 education		5,496
Total federal sources		19,306
Interest and other		
After school programs		5,768
Other		2,715
Total interest and other		8,483
Total general fund revenues	$	816,600

See independent auditor's report on supplemental information

RENAISSANCE PUBLIC SCHOOL ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Instruction		
Elementary school		
Salaries	$	201,518
Benefits		35,108
Payroll taxes		16,249
Workshops and conferences		3,603
Teaching supplies		11,018
Textbooks and materials		26,119
Repairs and maintenance		3,643
Dues and memberships		320
Miscellaneous		2,178
Total elementary school		299,756
Board of education		
Legal services		27,889
Audit services		3,800
Advertising		7,767
Total board of education		39,456
Executive administration		
C.M.U. oversight fees		22,886
Management fees		65,690
Total executive administration		88,576

RENAISSANCE PUBLIC SCHOOL ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 1999

Building administration	
Salaries	87,683
Benefits	10,671
Payroll taxes	6,699
Workshops and conferences	1,775
Telephone	4,786
Dues and memberships	1,097
Supplies and other	10,199
Property taxes	7,170
Liability insurance	4,362
Total building administration	134,442
Operation and maintenance	
Utilities	15,472
Trash removal	982
Maintenance	22,327
Supplies and other	1,776
Miscellaneous	133
Total operation and maintenance	40,690
Capital outlay	
Building administration	9,328
Total capital outlay	9,328
Debt principal and interest	136,707
Total general fund expenditures	$ 748,955

See independent auditor's report on supplemental information

Report Letter on Compliance with Laws and Regulations and Internal Control - General Purpose Financial Statements

To the Board of Directors
Renaissance Public School Academy

We have audited the financial statements of the Renaissance Public School Academy as of and for the year ended June 30, 1999, and have issued our report thereon dated September 16, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 Renaissance Public School Academy'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 Renaissance Public School Academy'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 reportable conditions that are also considered to 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 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 operating that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the board of directors and others within the Academy and is not intended to be and should not be used by anyone other then these specified parties.

Croskey, Lanni & Company, P.C.

September 16, 1999
Rochester Hills, Michigan

The Learning Center Academy

Byron Center, Michigan

Audited General Purpose Financial Statements

June 30, 1999

CROSKEY, LANNI & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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CROSKEY, LANNI & COMPANY, P.C.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of The Learning Center Academy

We have audited the accompanying general purpose financial statements of The Learning Center Academy as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of The Learning Center Academy management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of The Learning Center Academy at June 30, 1999, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 1999 on our consideration of The Learning Center Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Croskey, Lanni & Company, P.C.

September 14, 1999
Rochester Hills, Michigan

THE LEARNING CENTER ACADEMY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

ASSETS

	Governmental Fund Type	Fiduciary Fund Type	Account Groups	
	General	Agency	General Long-term Debt	General Fixed Assets
Cash	$ 11,427	$ 54	$ -	$ -
Due from other governmental units	103,478	-	-	-
Building and equipment	-	-	-	737,475
Amount to be provided for retirement of general long-term debt	-	-	741,100	-
Total assets	$ 114,905	$ 54	$ 741,100	$ 737,475

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	$ 20,226	$ -	$ -	$ -
Note payable	30,000	-	-	-
Accrued expenses	32,596	-	-	-
Payable to State of Michigan	1,936	-	-	-
Due to student groups	-	54	-	-
Long-term obligations payable	-	-	741,100	-
Total liabilities	84,758	54	741,100	-

FUND BALANCES

Investment in general fixed assets	-	-	-	737,475
Unreserved:				
Undesignated	30,147	-	-	-
Total liabilities and fund balances	$ 114,905	$ 54	$ 741,100	$ 737,475

See accompanying notes to financial statements

THE LEARNING CENTER ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 1999

REVENUE		
Local sources	$	210
State sources		565,082
Federal sources		148
Interest and other		2,259
OTHER FINANCING SOURCES		
Proceeds of long-term debt		748,671
Total general fund revenue and other financing sources		1,316,370
EXPENDITURES		
Elementary school		246,880
Middle school		68,781
Supporting services		12,880
Board of education		10,361
Executive administration		66,594
Building administration		93,900
Other business services		6,247
Operation and maintenance		46,305
Capital outlay		506,093
Debt principal and interest		205,030
Total general fund expenditures		1,263,071
Excess of revenue and other financing sources over expenditures		53,299
Fund deficit, July 1, 1998		(23,152)
Fund balance, June 30, 1999	$	30,147

See accompanying notes to financial statements

THE LEARNING CENTER ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 1999

	Budget	Actual	Over (Under) Budget
REVENUE			
Local sources	$ -	$ 210	$ 210
State sources	573,012	565,082	(7,930)
Federal sources	4,457	148	(4,309)
Interest and other	45,000	2,259	(42,741)
OTHER FINANCING SOURCES			
Proceeds of long-term debt	541,000	748,671	207,671
Total general fund revenue and other financing sources	1,163,469	1,316,370	152,901
EXPENDITURES			
Elementary school	217,881	246,880	28,999
Middle school	72,835	68,781	(4,054)
Supporting services	10,000	12,880	2,880
Board of education	8,000	10,361	2,361
Executive administration	67,537	66,594	(943)
Building administration	95,166	93,900	(1,266)
Other business services	-	6,247	6,247
Operation and maintenance	42,330	46,305	3,975
Capital outlay	521,000	506,093	(14,907)
Debt principal and interest	127,998	205,030	77,032
Total general fund expenditures	1,162,747	1,263,071	100,324
Excess of revenue and other financing sources and expenditures	722	53,299	52,577
Fund deficit, July 1, 1998	(23,152)	(23,152)	-
Fund balance, June 30, 1999	$ (22,430)	$ 30,147	$ 52,577

See accompanying notes to financial statements

THE LEARNING CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Learning Center Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

The Learning Center Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on June 5, 1996, and began operation in July 1996.

In May 1996, the Academy entered into a five-year contract with Grand Valley State University's Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Grand Valley State University's Board of Trustees three percent of state aid as administrative fees. The total administrative fees paid for the year ended June 30, 1999 were approximately $16,500

In April, 1998 the Academy entered into a seven year agreement with JCR & Associates "JCR". Under the terms of this agreement, JCR provides a variety of services including management curriculums, educational programs and teacher training. The Academy is obligated to pay JCR nine percent of its state school aid revenue. The total paid for these services accumulated to approximately $50,200 for the year ended June 30, 1999.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

THE LEARNING CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Accounting

The accounts of the Academy are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Fund

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related tot he approved current operating budget.

Fiduciary Fund

The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an Activity Fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Account Groups

Account groups are not funds, they do not reflect available financial resources and related liabilities or the measurement of results of operations but are the Academy's accounting records of the general fixed assets and general long-term debt. The General Fixed Assets Account Group is used to maintain records of the cost of property owned by the Academy. The General Long-Term Debt Account Group is used to record the outstanding debt and other noncurrent obligations of the Academy.

THE LEARNING CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

General Fixed Assets - General fixed assets are recorded as expenditures in the governmental fund in the year payment is made or expenditure accrued. Such assets are recorded at cost or, if donated, at their estimated fair values on the date donated in the General Fixed Assets Account Group. No depreciation has been provided on the general fixed assets.

Long-Term Liabilities - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

Basis of Accounting

Governmental and Agency Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.

b. Payments for inventoriable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.

c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.

d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Other accounting policies are disclosed in other notes to financial statements.

THE LEARNING CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 2 - BUDGETS

The Academy formally adopted a General Fund budget by function for the year ended June 30, 1999. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not formally recorded. During the year ended June 30, 1999, the budget was amended in a legally permissible manner.

NOTE 3 - DEPOSITS

The Academy's cash at June 30, 1999 is composed of deposit accounts amounting to $11,481.

The above deposits were reflected in the accounts of the bank (without recognition of checks written but yet cleared or of deposits in transit) at $32,230. All deposits were covered by federal depository insurance.

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts owed from governmental units consist of the following:

State aid	$ 100,098
LEA supplement	1,345
At risk receivable	941
Special education	1,094
Total	$ 103,478

NOTE 5 – NOTE PAYABLE

The Academy has obtained a business loan through a bank. The loan is payable $15,000 per month, plus interest at 9.5% through August , 1999. Security for the loan is provided through future state school aid payments.

THE LEARNING CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 6 – ACCRUED EXPENSES

Accrued expenses may be summarized as follows:

Management fee	$ 9,130
GVSU oversight fee	3,043
Payroll	16,781
Payroll taxes	1,284
Benefits	2,358
Total	$ 32,596

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy for the year ended June 30, 1999.

	Over-Payment Due State	Old Kent Capital Lease Payable	Note Payable Old Kent	Note Payable Byron Bank	Business Loan	ABS Capital Lease 1	ABS Capital Lease 2	ABS Capital Lease 3	Total
Balance - July 1, 1998	$ 21,296	$ 86,193	$ 12,347	$ 10,805	$ -	$ -	$ -	$ -	$ 130,641
Additions	-	-	-	-	120,561	45,000	87,110	496,000	748,671
Retirements & payments	(10,647)	(86,193)	(12,347)	(10,805)	-	(5,408)	(6,307)	(6,505)	(138,212)
Balance - June 30, 1999	$ 10,649	$ -	$ -	$ -	$ 120,561	$ 39,592	$ 80,803	$ 489,495	$ 741,100

The Academy qualified for hardship status under Section 15(2) of the State School Aid Act regarding an overpayment of $31,994 paid to the school during fiscal year ended June 30, 1997. The hardship status allowed the Academy to negotiate non-interest bearing repayment of these funds over the three fiscal years ending June 30, 1998, 1999 and 2000 at $10,648 per year.

The note payable to Old Kent bore interest at 1% above prime and was paid in full during the year.

The note payable to Byron Center State Bank bore interest at 8.5% per annum and was paid in full during the year.

The Academy has obtained an unsecured business loan from its management company bearing interest at 9% per annum and payable over thirty months beginning November 1, 1999. The Academy may borrow up to $230,000, but must do so by October 31, 1999. As of June 30, 1999 the Academy has borrowed $120,561.

THE LEARNING CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE - Continued

Following are maturities of long-term obligations for each of the next five years:

2000	$ 63,153
2001	77,497
2002	76,765
2003	36,997
2004	30,936
Thereafter	455,752
Total	$ 741,100

NOTE 8 - CAPITAL LEASE AGREEMENTS

The Academy is the lessee of various classroom and office equipment held under a capital lease agreement. The lease is collateralized by the equipment bears interest at 14.5% per annum and expires in the year ended June 30, 2003.

The Academy leases its facilities and premises under two long-term capital leases. The leases are collateralized by the facilities and premises, bear interest at 14.5% and 10.5% per annum and expire in various years through 2018.

Minimum future lease payment under capital leases as of June 30, 1999 for each of the next five years and in the aggregate are:

2000	$ 90,081
2001	90,081
2002	90,081
2003	90,081
2004	79,484
Thereafter	837,370
Total minimum lease payment	1,277,178
Less amount representing interest	(667,288)
Present value of minimum lease payments	$ 609,890

THE LEARNING CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 9 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets is as follows:

	Balance July 1, 1998	Additions	Balance June 30, 1999
Equipment (under capital lease)	$ 87,338	$ -	$ 87,338
Leasehold improvements	55,589	-	55,589
Equipment	88,455	-	88,455
Building (under capital lease)	-	506,093	506,093
Total	$ 231,382	$ 506,093	$ 737,475

NOTE 10 - PENSION PLAN

All employees of the Academy are eligible to participate in a pension plan established by JCR which qualifies under the provisions of Section 401 of the Internal Revenue Code. Employer contributions under this plan are discretionary and amounted to 8% of salaries or approximately $21,300 for the year ended June 30, 1999. These contributions are fully vested with the employee after five years of service. Employees may also contribute up to 15% of their salaries under the terms of this plan.

NOTE 11 - RISK MANAGEMENT

The Academy is exposed to various risks or loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

THE LEARNING CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 12 - YEAR 2000 ISSUE (UNAUDITED)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely effect the Academy's operations as early as fiscal year end 1999.

The Academy generally uses widely available computer software which is updated frequently and as such does not anticipate any problems as a result of this issue, however no formal testing or evaluation has been performed.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Academy is or will be year 2000 ready, that the Academy's remediation efforts will be successful in part or in whole, or that parties with whom the Academy does business will be year 2000 ready.

CROSKEY, LANNI & COMPANY, P.C.
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To the Board of Directors
of The Learning Center Academy

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

We have audited the accompanying general purpose financial statements of The Learning Center Academy for the year ended June 30, 1999. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not required part of general purpose financial statements of The Learning Center Academy. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Croskey, Lanni & Company, P.C.

September 14, 1999
Rochester Hills, Michigan

THE LEARNING CENTER ACADEMY

SCHEDULE OF REVENUES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Local sources		
Donations	$	210
State sources		
At risk		5,173
Special education		5,033
State aid		549,277
LEA supplement		4,707
Other		892
Total state sources		565,082
Federal sources		
Eisenhower grant		98
Title I education		50
Total federal sources		148
Interest and other		2,259
Other financing sources		
Proceeds from long-term debt		748,671
Total general fund revenue and other financing sources	$	1,316,370

See independent auditor's report on supplemental information

THE LEARNING CENTER ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999

Instruction		
Elementary school		
Salaries	$	183,034
Benefits		36,510
Payroll taxes		16,597
Workshops and conferences		1,024
Teaching supplies		4,094
Textbooks and materials		5,621
Total elementary school		246,880
Middle school		
Salaries		48,131
Benefits		9,012
Payroll taxes		4,695
Teaching supplies		1,626
Textbooks and materials		5,317
Total middle school		68,781
Supporting services		
Contracted services		12,880
Board of education		
Legal services		1,103
Audit services		8,011
Advertising		1,247
Total board of education		10,361
Executive administation		
G.V.S.U. oversight fees		16,389
Management fees		50,205
Total executive administration		66,594

See independent auditor's report on supplemental information

THE LEARNING CENTER ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 1999

Building administration	
Salaries	66,800
Benefits	12,752
Payroll taxes	5,743
Postage and delivery	645
Printing	2,340
Office supplies	1,907
Dues and memberships	913
Telephone	2,800
Total building administration	93,900
Other business services	
Insurance	6,247
Operation and maintenace	
Utilities	10,153
Subcontracted services	7,880
Storage	2,610
Trash and snow removal	2,775
Maintenance	14,680
Supplies and other	2,010
Miscellaneous	6,197
Total operation and maintenance	46,305
Capital outlay	
Support services business	500,794
Operation and maintenance	5,299
Total capital outlay	506,093
Debt principal and interest	205,030
Total general fund expenditures	$ 1,263,071

See independent auditor's report on supplemental information

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Report Letter on Compliance with Laws and Regulations and Internal Control - General Purpose Financial Statements

To the Board of Directors
The Learning Center Academy

We have audited the financial statements of the The Learning Center Academy as of and for the year ended June 30, 1999, and have issued our report thereon dated September 14, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 Learning Center Academy'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 Learning Center Academy'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 certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described as follows:

Petty Cash

We noted that the petty cash account was not being utilized solely as a petty cash account. We found that some grant dollars as well as student activity funds were being deposited to petty cash. These items need to be kept separately in order to properly reflect grant as well as student activity funds received and expended.

Fixed Assets

We also noted that management does not maintain any lists of fixed assets purchased. As assets are acquired, they should be added to a list showing a detailed description of the assets, the dates purchased, and the purchase prices. As any assets are disposed of, they should be removed from this list. The maintenance of such a list is extremely important in ensuring that accurate amounts are reflected in the general purpose financial statements.

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 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 reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described above are considered material weaknesses.

This report is intended solely for the information and use of management the board of directors and others within the Academy and is not intended to be and should not be used by anyone other then these specified parties.

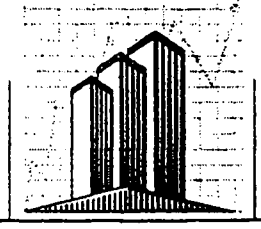
Croskey, Lanni & Company, P.C.

September 14, 1999
Rochester Hills, Michigan

CITY ON A HILL CHARTER SCHOOL, A NON-PROFIT CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 1998



CARLIN, CHARRON & ROSEN LLP

Certified Public Accountants & Business Advisors

CITY ON A HILL CHARTER SCHOOL, A NON-PROFIT CORPORATION

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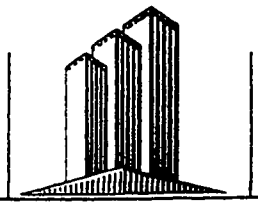

CARLIN, CHARRON & ROSEN LLP

Certified Public Accountants & Business Advisors

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
City on a Hill Charter School, a Non-Profit Corporation
Boston, Massachusetts

We have audited the accompanying statement of financial position of City on a Hill Charter School (a non-profit corporation, the Corporation) as of June 30, 1998, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. 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.

We were not engaged as auditors until after June 30, 1998 and, in accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of financial position at June 30, 1997. Aspects of the statement of financial position at that date, including classifications and amounts, materially affect the determination of the changes in net assets and cash flows for the year ended June 30, 1998. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying statements of activities, functional expenses and cash flows for the year ended June 30, 1998, or on the consistency of application of accounting principles with the preceding year.

In our opinion, the statement of financial position referred to in the first paragraph presents fairly, in all material respects, the financial position of City on a Hill Charter School (a non-profit corporation) as of June 30, 1998, in conformity with generally accepted accounting principles.

Carlin, Charron & Rosen LLP

CARLIN, CHARRON & ROSEN LLP

February 10, 1999

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CITY ON A HILL CHARTER SCHOOL,
A NON-PROFIT CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 1998

	Unrestricted	Temporarily Restricted	Total
ASSETS			
Cash	$ 244,906	$ 71,863	$ 316,769
Investments	203,645	-	203,645
Grants receivable	-	25,000	25,000
TOTAL ASSETS	$ 448,551	$ 96,863	$ 545,414
LIABILITIES AND NET ASSETS			
LIABILITIES			
Due to School	$ 339,360	$ -	$ 339,360
Deferred revenue	-	96,863	96,863
Accrued expenses	10,000	-	10,000
TOTAL LIABILITIES	349,360	96,863	446,223
NET ASSETS	99,191	-	99,191
TOTAL LIABILITIES AND NET ASSETS	$ 448,551	$ 96,863	$ 545,414

See independent auditor's report and
accompanying notes to financial statements

CITY ON A HILL CHARTER SCHOOL, A NON-PROFIT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 1998

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Support			
Grant revenue	$ 21,153	$ 409,360	$ 430,513
Revenue			
Interest Income	6,894	-	6,894
TOTAL	28,047	409,360	437,407
Net assets released from satisfaction of program restrictions	409,360	(409,360)	-
TOTAL SUPPORT AND REVENUE	437,407	-	437,407
EXPENSES			
Construction and technology	201,999	-	201,999
Scholarship program	200,500	-	200,500
Teacher entrepreneurship	187,641	-	187,641
Summer and after school program	8,860	-	8,860
Management and general	23,234	-	23,234
TOTAL EXPENSES	622,234	-	622,234
CHANGE IN NET ASSETS	(184,827)	-	(184,827)
NET ASSETS BEGINNING	284,018	-	284,018
NET ASSETS - ENDING	$ 99,191	$ -	$ 99,191

See independent auditor's report and accompanying notes to financial statements

CITY ON A HILL CHARTER SCHOOL,
A NON-PROFIT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 1998

	Construction and Technology	Scholarship Program	Teacher Entrepre-neurship	Summer and After School Programs	Total Programs	Management and General	Total
School support	$ 201,999	$ -	$ -	$ 8,860	$ 210,859	$ 1,650	$ 212,509
Scholarships	-	200,500	-	-	200,500	-	200,500
Special projects	-	-	187,641	-	187,641	-	187,641
Professional fees	-	-	-	-	-	13,012	13,012
Operations expense	-	-	-	-	-	5,612	5,612
Miscellaneous	-	-	-	-	-	2,960	2,960
	$ 201,999	$ 200,500	$ 187,641	$ 8,860	$ 599,000	$ 23,234	$ 622,234

See independent auditor's report and
accompanying notes to financial statements

CITY ON A HILL CHARTER SCHOOL,
A NON-PROFIT CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 1998

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (184,827)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Prior period reclassifications	(168,131)
(Increase) decrease in operating assets:	
Grants receivable	(25,000)
Increase (decrease) in operating liabilities:	
Due to School	339,360
Deferred revenue	96,863
Accrued expenses	10,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	68,265
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from maturity of investments	225,072
Purchases of short-term investments	(199,645)
NET CASH PROVIDED BY INVESTING ACTIVITIES	25,427
INCREASE IN CASH	93,692
CASH - BEGINNING	223,077
CASH - ENDING	$ 316,769

See independent auditor's report and
accompanying notes to financial statements

1. NATURE OF ACTIVITIES

City on a Hill Charter School (a non-profit corporation, the Corporation) was organized in 1994 and supports the separate City on a Hill Charter School (a Massachusetts public school, the School), and seeks to leverage sustained systemic change in urban public education. Effective July 1, 1998, the Corporation changed its name to City on a Hill, Inc. to further clarify the distinction between the Corporation and the public school.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The financial statements of the Corporation have been prepared on the accrual method of accounting. Accordingly, assets are recorded when the Corporation obtains the rights of ownership or is entitled to claims for receipt and liabilities are recorded when the obligation is incurred.

Reporting Entity

The financial statements include only the accounts and activities of the Corporation. The School has not been combined in these financial statements because common control is expected to be temporary. Related party transactions between the Corporation and the School are disclosed in Note 6.

Financial Statement Presentation

The Corporation classifies resources for accounting and reporting purposes into different net asset categories according to externally (donor) imposed restrictions. Accordingly, net assets of the Corporation and changes therein are reported in the following net asset categories:

Unrestricted net assets represent net assets that are not subject to donor imposed stipulations and include revenues and expenses associated with the principal mission of the Corporation. The Board of Trustees has discretionary control over all of these assets. The Board may elect to designate such resources for specific purposes. These designations may be removed at the Board's discretion.

Temporarily restricted net assets represent net assets subject to donor imposed or grant stipulations for specific operating or capital purposes. These assets will become unrestricted when the requirements of the donor or grantor have been satisfied either by the expenditure for the specified purpose or program or through the passage of time.

The Corporation currently has no net assets reportable as permanently restricted net assets.

Continued --

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of Donor Restrictions

All donor restricted support is reported as an increase in temporarily restricted net assets depending on the nature of the restriction. Contributions and pledges intended for use in future periods are recorded as temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions, Gifts and Grants

Contributions are recorded as receivables and revenues and the Corporation distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their fair value at the date of the gift. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met.

The Corporation recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, as provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no such services donated in 1998. However, a substantial number of volunteers donate significant amounts of their time in the furtherance of the Corporation's programs. In fact, during the year ended June 30, 1998, the Corporation had no employees. The value of volunteer time is not reflected in these financial statements.

Investments

Investments consist of government and equity securities. Investments are stated at cost or donated amounts which approximate fair market value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the trustees to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Corporation qualifies as a tax-exempt, non-profit organization under Section 501(c)3 of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is required.

Deferred Revenue

The balance represents amounts received in advance of program performance.

3. INVESTMENTS

Investments representing unrestricted assets consist of the following:

	COST	MARKET
U.S. Government securities	$ 199,645	$ 199,645
Stocks - equity securities	4,000	4,000
	$ 203,645	$ 203,645

4. GRANTS RECEIVABLE

The Corporation received grants and restricted contributions for teacher entrepreneurship programs. The receivable balance of $25,000 at June 30, 1998 consists of amounts receivable in less than one year.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Teacher entrepreneurship	$ 96,863

6. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

School site improvements	$202,000
Other grants	207,360
	$409,360

7. RELATED PARTY TRANSACTIONS

The Board of Trustees of City on a Hill Charter School (a non-profit corporation) consists temporarily of the same members as the Board of Trustees of the City on a Hill Charter School (the School).

At June 30, 1998, the Corporation owes the School $339,360, which relates to grants made to the School and cash not yet transferred.

8. CONCENTRATION OF CREDIT RISK

The Corporation has a concentration of credit represented by cash balances in a certain large commercial bank in amounts in excess of current federal deposit insurance limits. The financial stability of this institution is continually reviewed by senior management.