ACADEMY OF DAYTON
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

ACADEMY OF DAYTON
MONTGOMERY COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Academy of Dayton Community School
Montgomery County
4095 Little Richmond Road
Dayton, Ohio 45427

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Academy of Dayton Community School, Montgomery County, (the Academy), as of and for the fiscal year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2005, and the respective changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

March 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2005

This section of the Academy of Dayton Community School's (the Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2005. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy of Dayton financially as a whole.

Management's Discussion and Analysis (MD&A)
  Required Supplemental Information

Basic Financial Statements
  Statement of Net Assets
  Statement of Revenues, Expenses and Changes in Net Assets
  Statement of Cash Flows

Notes to the Financial Statements

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and changes in net assets which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of revenues, expenses and changes in net assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a summary of The Academy's net assets as of June 30, 2005

TABLE 1

NET ASSETS	**2005** (in thousands)	**2004** (in thousands)
Assets		
Current and other assets	$335.2	$541.8
Capital assets, net of accumulated depreciation	365.5	362.0
Total assets	700.7	903.8
Liabilities		
Current liabilities	1,127.3	1,341.2
Net Assets		
Invested in Capital Assets – Net of related debt	365.5	362.0
Unrestricted	(792.1)	(799.4)
Total Net Assets (Deficit)	($426.6)	($437.4)

Net Assets – The Academy's net assets increased over the previous year – the increase in net assets was $10,778. The Academy's net assets are in a deficit position.

The Academy's improving financial position is the result of several factors. The primary reason for this improvement was the increase in student enrollment, while holding actual expenditures at a stable level.

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's activities is discussed below. The Academy's net assets were negative $426,634 at June 30, 2005. Capital assets recorded at historical cost, net of depreciation, totaled $365,515. No long-term debt was used to finance the acquisition of those assets. The Academy does not have any restricted net assets. The remaining amount of net assets (deficit) of $792,149 was unrestricted.

The $(792,149) in unrestricted net assets (deficit) represents the accumulated results of the past years' operations. Since the unrestricted net assets balance is in a deficit, the Academy has difficulty meeting its working capital and cash flow requirements. The liabilities of the Academy are financed through a balance owed to the management company. The operating results of the Academy will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets (deficit) for fiscal year 2005.

TABLE 2

CHANGE IN NET ASSETS	**2005** (in thousands)	**2004** (in thousands)
Operating Revenues		
Foundation	$1,097.0	$1,230.6
Other	.1	4.4
Non-Operating Revenues		
Grants-State	10.1	6.9
Grants-Federal	355.5	437.7
Total Revenues	1,462.7	1,679.6
Operating Expenses		
Salaries	530.3	538.4
Fringe Benefits	116.9	120.9
Payroll Taxes	28.7	23.4
Purchased Services	655.7	856.9
Materials and Supplies	92.3	92.1
Depreciation	28.0	23.5
Total Expenses	1,451.9	1,655.2
Increase (Decrease) in Net Assets	10.8	24.4
Net Assets(Deficit), beginning of year	(437.4)	(461.8)
Net Assets(Deficit), end of year	($426.6)	($437.4)

As reported in the statement of activities, the cost of all of our activities this year was approximately $1,452,000. Certain activities were partially funded by those who benefited from the programs, or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefits" portion of our activities with $1,096,985 in state foundation allowance.

The Academy experienced an increase in net assets of $10,778. Key reasons for the change in net assets were increased enrollment and monitoring expenditures to help reduce the net asset deficit.

Budgetary Highlights

The Academy is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705. Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted just before year-end. There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

As of June 30, 2005, the Academy had $365,515 invested in capital assets, including leasehold improvements, furniture and equipment. This amount represents a net increase, including additions and disposals, of $31,470.

Capital Assets	**2005** (in thousands)	**2004** (in thousands)
Leasehold improvements	$333.8	$333.8
Furniture and equipment	109.4	77.9
Sub-Total	443.2	411.7
Less: Accumulated Depreciation	(77.7)	(49.7)
Capital Assets, net	$365.5	$362.0

This year's additions of $31,470 included furniture and equipment. No debt was issued for these additions.

No major capital projects are planned for the near future. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy did not have any outstanding debt other than normal account payables, which are recorded on an accrual basis.

Other obligations include accrued salaries, benefits, and vacation pay. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our administration considers many factors when setting the Academy's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined based on the student count and the foundation allowance per pupil. The 2006 budget was adopted during May 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 75 percent of the revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on current enrollment data at the start of the 2005-06 school year, we anticipate that the fall student count will be below the estimates used in creating the 2006 budget. Once the final student count and related per pupil funding is validated, the Academy will amend the budget if actual Academy resources are not sufficient to fund the original appropriation.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The impact on the Academy of the State's projected revenue is not known.

Contacting the Academy's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to reflect the Academy's accountability for the funds it receives. Questions concerning any of the information in this report should be directed to:

Andrew Burks, Fiscal Officer
Academy of Dayton Community School
c/o Charter School Administration Services, Inc.
20755 Greenfield Rd, Suite 300,
Southfield, MI 48075

ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005

Current Assets	
Cash	$110,662
Intergovernmental Receivable	223,595
Other Receivable	38
Prepaid Expenses	917
Total Current Assets	335,212
Noncurrent Assets	
Capital Assets (Net of Accumulated Depreciation)	365,515
Total Noncurrent Assets	365,515
Total Assets	700,727
Liabilities	
Current Liabilities	
Accounts Payable	1,092,676
Intergovernmental Payable	12,511
Accrued Wages and Benefits	22,174
Total Liabilities	1,127,361
Net Assets	
Invested in Capital Assets	365,515
Unrestricted (Deficit)	(792,149)
Total Net Assets (Deficit)	($426,634)

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

ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN ACCUMULATED DEFICIT FOR THE YEAR ENDED JUNE 30, 2005

Operating Revenues	
Foundation Payments	$1,096,985
Food Sales	131
Total Operating Revenue	1,097,116
Operating Expenses	
Salaries	530,336
Fringe Benefits	116,944
Payroll Taxes	28,675
Purchased Services	655,686
Materials and Supplies	92,333
Depreciation	27,965
Total Operating Expenses	1,451,939
Operating Loss	(354,823)
Non-Operating Revenues	
Grants - State	10,105
Grants - Federal	355,496
Total Non-Operating Revenues	365,601
Change in Net Assets	10,778
Accumulated Deficit, Beginning of Year	(437,412)
Accumulated Deficit, End of Year	($426,634)

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

ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

Cash Flow from Operating Activities	
Cash Received from State Foundation	$775,660
Cash Received from Food Program	131
Cash Payments to Suppliers for Goods and Services	(403,056)
Cash Payments to Employees for Services	(565,365)
Cash Payments for Employees Benefits	(186,378)
Net Cash Used by Operating Activities	(379,008)
Cash Flows from Noncapital Financing Activities	
Grants Received - State	6,717
Grants Received - Federal	516,638
Cash Payment on Loan	(195,000)
Cash Received on Advances	75,000
Cash Payment on Advances	(75,000)
Net Cash Provided for Noncapital Financing Activities	328,355
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(31,470)
Net Decrease in Cash	(82,123)
Cash, Beginning of Year	192,785
Cash, End of Year	110,662
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	(354,823)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	27,965
Changes in Assets and Liabilities	
Increase in Operating Intergovernmental Receivables	(20,793)
Increase in Prepaid Expenses and Other Receivables	(38)
Increase in Accounts Payable	345,001
Decrease in Intergovernmental Payable	(300,532)
Decrease in Accrued Wages and Benefits	(75,788)
Total Adjustments	(24,185)
Net Cash Used for Operating Activities	($379,008)

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

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Academy of Dayton (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702. The Academy's objective is to prepare all students to be successful citizens, cooperative workers, and profitable entrepreneurs by developing their unique potential. The program is offered for students in kindergarten through eighth grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed, and contract for any services necessary for the operation of the school.

The Academy was approved for operation under contract with the Ohio Council of Community Schools (Sponsor) for a two year period commencing on July 1, 2004 through June 30, 2006. The Academy became operational during July of 2000. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a self-appointing five-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility staffed by a director, principal, thirteen full-time certified teaching personnel, and six non-certified support personnel who provide services to an enrollment of approximately 165 students.

The Board has entered into a management contract with Charter School Administration Services, Inc. (CSAS), to provide consulting services including teacher training, curriculum development, financial management, and State relations. (See Notes 9 and 14)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. In accordance with GASB Statement No. 33, after fiscal year 2000, capital contributions from other governments and private sources are recorded as non-operating revenues and reported as retained earnings. The operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to financial projections, which is updated on an annual basis.

D. Cash

The Academy's management company, Charter School Administration Services, Inc. (CSAS), which serves as the Academy's fiscal agent, accounts for all monies received by the Academy. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name. Monies for all funds of the Academy are maintained in this account. (See Note 3)

E. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of five years. Leasehold improvements are depreciated over the estimated useful life of 39.5 years.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when resources are required to be used and the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2005, including:

Accrued Wages and Benefits Payable - salary payments made after year-end that were for services rendered in fiscal year 2005. Certain teaching personnel are paid year round, however, payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2005 for all salary payments made to teaching personnel during the summer of 2005.

3. DEPOSITS AND INVESTMENTS

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Academy's deposits was $110,662 and the bank balance was $134,480. Of the bank balance, $34,480 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name. The Academy has no deposit policy for custodial credit risk.

B. Investments

During the fiscal year ended June 30, 2005, the Academy had no investments. The Academy has no investment policy that addresses any restriction on investments relating to interest rate, credit, or custodial credit risks.

4. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2005 consist of Federal and State grant programs:

Grant	Amount
Title I	$70,000
Title II part A	3,187
Title II part D	2,756
Title IV	1,406
Title V	1,062
21st Century	68,292
IDEA	43,815
Student Intervention	3,388
Breakfast and Lunch Grant	8,896
State Foundations	20,793
Total Intergovernmental Receivable	$223,595

5. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2005, follows:

Capital Assets, being depreciated:	Balance 07/01/04	Additions	Deletions	Balance 06/30/05
Leasehold Improvements	$333,770	$0	$0	$333,770
Furniture and Equipment	77,963	31,470	0	109,433
Sub-Total	411,733	31,470	0	443,203
Less: Accumulated Depreciation	(49,723)	(27,965)	0	(77,688)
Capital Assets, Net	362,010	3,505	$0	$365,515

6. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2005, the Academy contracted with Employers Mutual Casualty Company for property and general liability insurance.

Professional liability is protected by employers Mutual Casualty Company with a $1,000,000 single occurrence limit and $2,000,000 aggregate and no deductible.

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

B. Worker's Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical, Dental, Vision, Prescription, and Life Benefits

The Academy has contracted with private carriers to provide employee medical, dental, vision, prescription, and life benefits to its full time employees who work 40 or more hours per week.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

7. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's contributions to SERS for the years ended June 30, 2005, 2004, and 2003 were $14,042, $8,111, and $8,377, respectively, equal to the required contributions for each year, of which 100 percent has been contributed.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31^{st} year of earned Ohio Service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

7. DEFINED BENEFIT PENSION PLANS (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005, were 10% of covered payroll for members and 14% for employers; 13 percent was the portion used to fund pension obligations. The Academy's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were $59,966, $58,391, and $50,605, respectively; equal to the required contributions for each year, of which 100 percent has been contributed for the fiscal year ended June 30, 2005 and 100 percent for the fiscal years ended June 30, 2004 and 2003.

7. DEFINED BENEFIT PENSION PLANS (Continued)

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2005 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

8. POSTEMPLOYMENT BENEFITS

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including the surcharge, was $3,226 for fiscal year 2005.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deductions. Gross expenses for health care at June 30, 2005, were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of benefit recipients currently receiving heath care benefits is approximately 58,123.

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

8. POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2005, and June 30, 2003, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005.

For the Academy, this amount equaled $4,558 during the 2005 fiscal year. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

9. AGREEMENTS WITH CHARTER SCHOOL ADMINISTRATION SERVICES, INC.

The Academy entered into a five-year contract, effective July 1, 2000 through June 30, 2005, with Charter School Administration Services, Inc. (CSAS) for educational management services. In exchange for its services, CSAS receives a management fee equal to 12% of all revenue sources and is reimbursed for all costs incurred on behalf of the Academy. Terms of the contract require CSAS to provide the following:

a. Providing the support necessary for the provision of educational services to students and the management, operation, and maintenance of the Academy.

b. Implementation and administration of the Educational Program, including the selection and acquisition of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs.

c. All personnel functions, including professional development for the Academy Administrator, all instructional personnel, and support staff.

d. Control, maintenance, and operation of the school building, and the installation of technology integral to the school design.

e. All aspects of the business administration of the Academy.

f. Transportation and food service for the Academy.

g. A projected annual budget prior to each school year.

h. Detailed statements of all revenues received, from whatever source, and detailed statements of all direct expenditures for services rendered to or on behalf of the Academy, whether incurred on-site or off-site, upon request.

i. Provide support for annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy.

i. Reports on Academy operations, finances, and student performance, upon request, but not less frequently than four times per year.

k. Any other function necessary or expedient for the administration of the Academy.

For the year ended June 30, 2005, the Academy incurred management company fees of $153,983 of which $153,983 was waived by Charter School Administration Services, Inc.

10. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claim will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

C. Litigation

Ohio's Community School's Program

The suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred on November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

State funding adjustment

A suit was filed in the Ohio Court of Claims captioned the Academy of Dayton Community School v. Ohio Department of Education (ODE). Pursuant to Ohio Rev. Code Chapter 3314, as a community school, the Academy is entitled to receive payment from the State of approximately $5,600 for each student that attends the Academy. The action seeks repayment from the ODE of funds that ODE withheld based on ODE's belief that the Academy was overpaid for the number of students who were attending the Academy during the 2002-2003 school year. The Academy asserts that ODE did not have a valid basis for withholding the funds, which total nearly $450,000, and that the Academy should have been paid for the large majority of the students for whom ODE withheld funds. See Note 18 for subsequent decision on this case.

11. STATE SCHOOL FUNDING DECISION

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

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

12. OPERATING LEASE

The Academy entered into a lease for the period August 1, 2002, through July 31, 2005, with Education Real Estate, Inc. for a larger facility. The lease calls for monthly payments of $11,280 per month for the period of the lease. A holdover provision allows the Academy to continue the terms of the current lease on a month-to-month basis at the conclusion of the lease provision. The Academy subordinated its interest in the lease to a mortgage held by Education Real Estate, Inc.'s bank. Fiscal year 2005 payments totaled $135,360.The Academy's lease was extended from July 31, 2005 to June 30, 2006. The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2005:

Year ending June 30	Amount
2006	$11,280
Future minimum payments	$11,280

13. RELATED PARTIES

Two of the board members of the Academy are also board members of the Academy of Cleveland and the Academy of Business and Technology. Members of the Board of Trustees are not compensated.

The Academy entered into a lease for the period August 1, 2002, through July 31, 2005, with Education Real Estate, Inc. for a larger facility (See Note 12). Education Real Estate, Inc. is the real estate company of Charter School Administration Services, Inc. (CSAS) the Academy's management company. Total lease payments for the year ended June 30, 2005 to Education Real Estate, Inc. were $135,360 for rent as discussed in Note 12.

Overhead fees which were earned by CSAS, the management company, were $122,744. These fees were waived by CSAS as discussed in Note 14. Total management company fees earned by CSAS were $153,983. These fees were waived as discussed in Note 9.

14. CONSORTIUM AGREEMENT

On August 23, 2000, the Board of Trustees approved joining a consortium with eighteen other charter schools and public school academies, each of which is managed by Charter School Administration Services, Inc. (CSAS) under management agreements comparable to the management agreement between the Academy and CSAS (See Note 9). The Members of the consortium are:

14. CONSORTIUM AGREEMENT (Continued)

Academy	State of Operation
Academy of Business and Technology	Ohio
Academy of Cleveland	Ohio
Academy of Kansas City Charter School	Missouri
Academy of Arizona	Arizona
Beaumont Charter Academy	Texas
Academy of Dallas	Texas
Bexar County Academy	Texas
Academy of Lithonia	Georgia
Academy of Detroit West	Michigan
Academy of Oak Park	Michigan
Academy of Michigan	Michigan
Academy of Southfield	Michigan
Academy of Lathrup Village	Michigan
Academy of Flint	Michigan
Academy of Inkster	Michigan
Academy of Waterford	Michigan
Academy of Westland	Michigan
Cherry Hill School of Performing Arts	Michigan

The Management Agreement between the Academy and CSAS provides for the allocation of indirect costs incurred by CSAS on behalf of the Academy and the other members of the consortium. Based upon the count of students at the Academy and the other members of the consortium as of September 2000, and the experiences of CSAS in both incurring costs for the consortium members and allocation of such costs to consortium members, the Academy and CSAS has agreed upon an equitable method of such allocation. Based upon the student count, the Academy shall pay CSAS, for all indirect reimbursable expenses incurred by CSAS on behalf of the Academy and other members of the consortium, for the 2004-2005 school year, in an amount equal to $ 67 per month per student enrolled at the Academy, $122,744 for the 2005 school year. These fees were waived by CSAS for the fiscal year 2005.

15. OTHER PURCHASED SERVICES

During the year ended June 30, 2005, other purchased service expenses for services rendered by various vendors were as follows:

Audit fees	$ 130
Advertising	14,619
Professional and technical services	217,435
Insurance	19,362
Management Fee	25,875
Legal	31,787
Equipment Leases	16,789
Maintenance and repairs	13,987
Food Service	101,326
Rent	141,448
Telephone	17,706
Meetings and Conferences	19,760
Utilities	28,329
Other	7,133
	$655,686

16. TAX EXEMPT STATUS

The Academy has not filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code, however the Academy is in the process of filing the required documents and has retained counsel to prepare and handle the required filings. The Academy has not filed tax returns for fiscal years 2005, 2004, 2003, 2002, or 2001 and the Academy has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.

17. MANAGEMENT'S PLANS REGARDING CONTINUED EXISTENCE

As shown in the accompanying financial statements, the Academy had a working capital deficiency of $792,149 as of June 30, 2005, which is primarily due to accounts payable of $1,092,676 of which $815,980 was over 90 days old.

The Academy's long range plans are to seek increased enrollment.

18. SUBSEQUENT EVENTS

A. Funds Awarded

In case 2005-01340, Judge Joseph T. Clark ruled that Ohio Department of Education will pay the Academy of Dayton Community School the sum of $355,000 pursuant to Ohio Rev. Code Section 2743.19 as a settlement agreement. No interest on this amount shall be paid. On February 2, 2006, as a result of this judgment, the Academy had released all claims against the Ohio Department of Education. A check was issued to the Academy on March 23, 2006.

B. Sponsorship

On March 27, 2006, the Ohio Council of Community Schools (the Sponsor) decided to not renew their contract with the Academy. The current contract extends to June 30, 2006.

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

Academy of Dayton Community School
Montgomery County
4095 Little Richmond Road
Dayton, Ohio 45427

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the Academy of Dayton Community School, Montgomery County, (the Academy), as of and for the fiscal year ended June 30, 2005, which comprise the Academy's basic financial statements and have issued our report thereon dated March 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated March 22, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated March 22, 2006, we reported other matters related to noncompliance we did not deem reportable conditions.

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We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not intended for anyone other than these specific parties.

Betty Montgomery

Betty Montgomery
Auditor of State

March 22, 2006

Auditor of State
Betty Montgomery

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ACADEMY OF DAYTON COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 4, 2006