



Mary Taylor, CPA
Auditor of State

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Dayton Academy School
Montgomery County
4401 Dayton Liberty Road
Dayton, Ohio 45418

To the Governing Board:

We have audited the accompanying basic financial statements of the Dayton Academy School, Montgomery County (the Academy), as of and for the year ended June 30, 2006, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dayton Academy School, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, 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.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 30, 2007

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of the Dayton Academy School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

- In total, net assets decreased \$36,137, which represents a 5.8 percent decrease from 2005.
- Total assets increased \$114,118, which represents a 5.3 percent increase from 2005.
- Liabilities increased \$150,255, which represents a 9.8 percent increase from 2005.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The statement of net assets includes all assets and liabilities, both short-term and long-term using the accrual basis of accounting and economic measurement resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2006 and fiscal year 2005:

	<u>2006</u>	<u>2005</u>	<u>Change</u>
(Table 1)			
Net Assets			
Assets:			
Current Assets	\$1,945,204	\$1,824,108	\$121,096
Depreciable Capital Assets, Net	327,966	334,944	(6,978)
Total Assets	<u>2,273,170</u>	<u>2,159,052</u>	114,118
Liabilities:			
Current Liabilities	<u>1,687,575</u>	<u>1,537,320</u>	150,255
Net Assets:			
Invested in Capital Assets	327,966	334,944	(6,978)
Unrestricted	257,629	286,788	(29,159)
Total Net Assets	<u><u>\$585,595</u></u>	<u><u>\$621,732</u></u>	<u><u>(\$36,137)</u></u>

Total assets increased \$114,118, mainly due to an increase in cash and cash equivalents which was a result of an overpayment in state foundation that the School did not spend during 2006. Capital Assets, net of depreciation decreased by \$6,978. Liabilities increased by \$150,255 due to an increase in the intergovernmental payable as a result of an overpayment on April 2006 state foundation. The decrease in unrestricted net assets was only \$29,159 which was the result of the decrease in expenditures being more than the reduction in revenues during fiscal year 2006.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2006 and fiscal year 2005.

**(Table 2)
Change in Net Assets**

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Operating Revenues:			
Sales	\$21,239	\$20,033	\$1,206
State Foundation	4,779,571	5,656,524	(876,953)
Poverty Based Assistance	632,062	564,944	67,118
Miscellaneous	32,640	20,670	11,970
Total Operating Revenues	<u>5,465,512</u>	<u>6,262,171</u>	<u>(796,659)</u>
Non-Operating Revenues:			
Federal and State Grants	1,267,141	1,514,766	(247,625)
Interest	25,089	6,907	18,182
Total Non-Operating Revenues	<u>1,292,230</u>	<u>1,521,673</u>	<u>(229,443)</u>
Total Revenues	<u>6,757,742</u>	<u>7,783,844</u>	<u>(1,026,102)</u>
Operating Expenses:			
Fringe Benefits	392,680	387,782	4,898
Purchased Services	5,731,179	6,879,877	(1,148,698)
Rent	659,670	667,068	(7,398)
Materials and Supplies	1,556	8,677	(7,121)
Depreciation	6,978	6,978	
Other Expenses	1,816	1,939	(123)
Total Expenses	<u>6,793,879</u>	<u>7,952,321</u>	<u>(\$1,158,442)</u>
Change in Net Assets	(36,137)	(168,477)	
Net Assets Beginning of Year	621,732	790,209	
Net Assets End of Year	<u>\$585,595</u>	<u>\$621,732</u>	

Net assets decreased from 2005 to 2006, by \$36,137. There was a decrease in revenues of \$1,026,102, mainly state foundation and federal and state grants, and a decrease in expenses of \$1,158,442, mainly purchase services, from fiscal year 2005. Revenues decreased due to a large decrease in enrollment resulting in less foundation and grant revenues. The decrease in expenses were also the result of a decrease in enrollment as staff and programs were cut.

Salaries for the School are generated by a management company. STRS and SERS are withheld from the State Foundation monthly payments.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Capital Assets

At the end of fiscal year 2006 the School had \$327,966, invested in buildings, which represented a decrease of \$6,978 from 2005, which was the depreciation expense for fiscal year 2006. Table 3 shows fiscal year 2006 and fiscal year 2005:

**(Table 3)
Capital Assets at June 30,
(Net of Depreciation)**

	<u>2006</u>	<u>2005</u>
Buildings	<u>\$327,966</u>	<u>\$334,944</u>

For more information on capital assets see Note 5 to the basic financial statements.

Debt Administration

The School does not have any outstanding debt at June 30, 2006.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Phyllis J. Bixler, Treasurer at Dayton Academy School, 4401 Dayton-Liberty Road, Dayton, Ohio 45418 or e-mail at ww_treas@mdeca.org.

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**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

Assets

Current Assets:

Cash and Cash Equivalents	\$1,479,654
Intergovernmental Receivables	462,612
Accrued Interest Receivable	<u>2,938</u>
Total Current Assets	<u>1,945,204</u>

Non-Current Assets:

Capital Assets:

Depreciable Capital Assets, Net	<u>327,966</u>
Total Assets	<u><u>2,273,170</u></u>

Liabilities

Current Liabilities:

Accounts Payable	21,773
Intergovernmental Payable	238,535
Accrued Wages and Benefits	23,090
Edison Payable	<u>1,404,177</u>
Total Liabilities	<u><u>1,687,575</u></u>

Net Assets:

Invested in Capital Assets	327,966
Unrestricted	<u>257,629</u>
Total Net Assets	<u><u>\$585,595</u></u>

See accompanying notes to the basic financial statements.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Operating Revenues:

Sales	\$21,239
State Foundation	4,779,571
Poverty Based Assistance	632,062
Miscellaneous	32,640
Total Operating Revenues	<u>5,465,512</u>

Operating Expenses:

Fringe Benefits	392,680
Purchased Services	5,731,179
Rent	659,670
Materials and Supplies	1,556
Depreciation	6,978
Other	1,816
Total Operating Expenses	<u>6,793,879</u>

Operating Loss	<u>(1,328,367)</u>
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Non-Operating Revenues:

Federal and State Grants	1,267,141
Interest	25,089

Total Non-Operating Revenues	<u>1,292,230</u>
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Change in Net Assets	(36,137)
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Net Assets Beginning of Year	<u>621,732</u>
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Net Assets End of Year	<u><u>\$585,595</u></u>
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See accompanying notes to the basic financial statements.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from Sales	\$21,239
Cash Received from State of Ohio	5,599,489
Cash Received from Miscellaneous Sources	32,640
Cash Payments for Fringe Benefits	(415,770)
Cash Payments to Suppliers for Goods and Services	(6,457,595)
Cash Payments to Others	<u>(1,816)</u>
Net Cash Used for Operating Activities	(1,221,813)
Cash Flows from Noncapital Financing Activities:	
Federal and State Subsidies Received	1,411,088
Cash Flows from Investing Activities:	
Interest	<u>22,151</u>
Net Increase in Cash and Cash Equivalents	211,426
Cash and Cash Equivalents at Beginning of Year	<u>1,268,228</u>
Cash and Cash Equivalents at End of Year	<u><u>\$1,479,654</u></u>
Reconciliation of Operating Loss to Net	
Cash Used for Operating Activities:	
Operating Loss	<u>(\$1,328,367)</u>
Adjustments to Reconcile Operating	
Loss to Net Cash Used for Operating Activities:	
Depreciation	6,978
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(50,679)
Increase in Intergovernmental Payable	238,535
Increase in Accounts Payable	16,184
Decrease in Edison Payable	<u>(104,464)</u>
Total Adjustments	<u>106,554</u>
Net Cash Used for Operating Activities	<u><u>(\$1,221,813)</u></u>

See accompanying notes to the basic financial statements.

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**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Alliance Community Schools, Inc. "Doing Business As" Dayton Academy School "the School" is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. Specifically, the School's purpose is to be a charter school serving children from kindergarten through grade eight. The School, which is part of the State's education program, is to operate or arrange for the operation of schools in the Dayton, Ohio area. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The creation of the School was initially proposed to the Ohio State Board of Education, the sponsor, by the Board of Trustees of Alliance Community Schools, Inc. (the Board) on November 9, 1998. The Ohio State Board of Education approved the proposal and entered into a contract with the Board, which provided for the commencement of School operations beginning the fiscal year 2000 academic year and terminated upon conclusion of fiscal year 2005.

The contract with the Ohio State Board of Education was not renewed and the School entered a sponsor contract with the Thomas B. Fordham Foundation for the period July 1, 2005 through June 30, 2010.

The School operates under a seven member Board of Trustees. This Board exercises its authority by appointing a separate five member Board of Governance for the School. The Board of Trustees is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Governance controls the School's one instructional facility staffed by 29 teaching personnel who provide services to approximately 889 students.

The School is associated with the Metropolitan Dayton Educational Cooperative Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 17)

Alliance Community Schools has several divisions. These divisions operate under the names of Dayton Academy, Dayton View Academy, and Alliance Facilities Management. Alliance Community Schools Inc. has contracted with Edison Schools, Inc. to act as a management company for both of the schools. (See Note 15)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The School uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial positions and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activity.

C. Basis of Accounting

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

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

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

D. Cash and Cash Equivalents

The School maintains an interest bearing depository account and a certificate of deposit. All funds of the School are maintained in these accounts. The interest bearing depository account is presented in the statement of net assets as Cash and Cash Equivalents. The School invests in a repurchase agreement.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over 50 years.

F. Compensated Absences

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

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets, invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The School has no debt. The School's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the State and sales for food services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

I. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the Poverty Based Assistance, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements in which the School must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the School on a reimbursement basis.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

J. Estimates

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

K. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

3. DEPOSITS AND INVESTMENTS

Articles of Incorporation, Article VI, states that the assets of the School may be invested in obligations issued or guaranteed by the United States of America or any agency thereof, obligations of state governments and municipal corporations, real estate mortgage. Savings deposits, corporate bonds, and notes and carefully selected preferred stocks.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$275,021 of the School's bank balance of \$375,021 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution, but not in the School's name.

The School has no policy for custodial risk for deposits.

B. Investments

As of June 30, 2006, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Repurchase Agreements	<u>\$1,162,846</u>	Less than 30 Days

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

The School has no investment policy that addresses interest rate risk.

Credit Risk

The underlying investment in the repurchase agreement is a Federal Home Loan Mortgage Corporation Note which carries a rating of Aaa by Moody's. The School has no investment policy that would limit its investment choices.

4. RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental (State Foundation and Federal and State grants) receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Title I	\$91,460
Teacher Quality Enhancement	14,053
Drug Free Schools	2,529
Title VI-B	303,891
State Foundation	50,679
Total Intergovernmental Receivable	\$462,612

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance 6/30/05	Additions	Deductions	Balance 6/30/06
Capital Assets, Being Depreciated:				
Building	\$348,900			\$348,900
Less Accumulated Depreciation:				
Building	(13,956)	(\$6,978)		(20,934)
Governmental Activities Capital Assets, Net	\$334,944	(\$6,978)	\$0	\$327,966

6. RISK MANAGEMENT – PROPERTY AND LIABILITY

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ended June 30, 2006, the School's management company, Edison Schools, Inc., carried comprehensive insurance on all of the schools they manage. This policy cannot be broken out on a per school basis, and therefore is presented on a cumulative basis. Edison Schools, Inc. contracted with Willis of Tennessee, Inc. for employee dishonesty (crime and fiduciary) bonds, business personal property, equipment hardware and software, general liability, and excess liability insurance.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. RISK MANAGEMENT – PROPERTY AND LIABILITY (Continued)

Employee dishonesty crime coverage carries a \$2,500 deductible and has a \$1,000,000 limit. Employee dishonesty fiduciary liability also has a limit of \$1,000,000, with no deductible. Computer equipment carries a \$50,000 deductible and has a \$1,060,376 limit. Business personal property has a limit of \$772,774, with a \$50,000 deductible. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate. In addition, the general liability provides \$500,000 for fire damage for any one fire. There have been no significant reductions in insurance coverage from the last fiscal year. Settled claims have not exceeded insurance coverage for the past three fiscal years.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent 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 a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$46,009, \$55,299, and \$56,889, respectively; 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System of Ohio

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$392,539, \$306,195, and \$330,012, respectively; 100 percent has been contributed for all three fiscal years. Contributions to the DC and Combined Plans for fiscal year 2006 were \$6,949 made by the School and \$10,515 made by the plan members.

8. POSTEMPLOYMENT BENEFITS

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$25,349 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the 2006 fiscal year, the School paid \$14,873 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

9. EMPLOYEE BENEFITS

As part of the management agreement with Edison Schools, Inc. (See Note 15), insurance benefits for school employees are paid by Edison.

10. RELATED PARTY TRANSACTIONS

A. Alliance Facilities Management (AFM)

The School leases its facilities and land from Alliance Facilities Management (AFM). The lease expense for the year ended June 30, 2006 was \$76,287 for the land and \$583,383 for the facilities. AFM's sole purpose is to acquire and hold title to, maintain and develop certain real estate properties for the exclusive support and benefit of a system of educational organizations. (See Note 11)

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. RELATED PARTY TRANSACTIONS (Continued)

B. Board of Governance

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

C. Thomas B. Fordham Foundation

The community school contract requires one percent of the total state foundation payment to be transferred to the Thomas B. Fordham Foundation for sponsorship fees. Total cash payments made during the fiscal year 2006 were \$25,915, another \$19,266 was recorded as payable as of June 30, 2006.

11. LEASES

The School subleases a building and 6.5588 acres together with the non-exclusive right to use and occupy some common areas through a related nonprofit organization, Alliance Facilities Management (AFM). (See note 10A.) The term of the lease commences on August 1, 1999 through June 30, 2004. The School has an option to renew the lease for four additional terms of five years. On October 15, 2004 the School renewed the lease for the period July 1, 2004 through June 30, 2009. AFM leases the land from the Dixon United Methodist Church. The School agreed to pay AFM, as rent for the land, an amount based on student enrollment each month. For the fiscal year 2006 the amount was \$7.64 per student. This amount increases by three percent in August each year. Rent paid for the land for the year ended June 30, 2006 was \$76,287.

The lease also states the School must pay AFM for rent of the building, an amount equal to the debt service relating to any financing obtained; plus loan closing cost, ongoing loan administration cost associated with any financing secured by the premises, including but not limited to, cost associated with satisfying the financial reporting and periodic appraisal requirements; plus out of pocket expenses incurred by AFM; plus \$5,000 per year. Lease payments for the building for the year ended June 30, 2006 were \$583,383.

12. STATE SCHOOL FUNDING DECISION

A suit was filled in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process, and claims violation of the right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Dayton Academy is not presently determinable.

13. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the Grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. CONTINGENCIES (Continued)

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 insure the schools are reporting accurate student enrollment data to the state, upon which State foundation funding is calculated. The School received \$50,679 in November 2006 from the funding adjustment.

14. PURCHASED SERVICES

For the fiscal year ended June 30 2006, purchased service expenses for services rendered by various vendors were as follows:

Management Company Fees	\$5,575,374
Alliance Community Schools	110,624
Sponsorship Fees	45,181
Total	<u><u>\$5,731,179</u></u>

15. AGREEMENT WITH EDISON SCHOOLS, INC.

On May 23, 2000, the School contracted with Edison Schools Inc, to provide educational programs that offer educational excellence and a laboratory for educational innovation based on Edison's unique school design, comprehensive educational programs, and management principles. The term of the contract is July 1, 2004 and ending on June 30, 2009. The contract shall be renewed for an additional five year term and cannot extend beyond the term of the School's contract with the Thomas B. Fordham Foundation. Under the contract Edison is responsible and accountable to Alliance Community School's Inc. Board of Trustees for the administration, operation, and performance of the School in accordance with the School's contract with the Thomas B. Fordham Foundation to operate the School. Significant provisions of the contract are as follows:

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit monthly to Edison all qualified gross revenue defined in the contract as "Appendix F" except for \$87,534, sponsorship fees and rent and common area rental. The following is a summary of current payment activity to Edison:

Amount due current fiscal year	\$5,575,374
Amount remitted current fiscal year	<u>(4,171,197)</u>
Edison Payable	<u><u>\$1,404,177</u></u>

2. The School's Financial Responsibility

The School is responsible for initial start up costs and rent. The School is responsible to pay for fees for legal services not related to the operation of the School.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

3. Edison Financial Responsibilities

Edison is responsible for costs associated with operating the School. Such costs shall include, but shall not be limited to, salaries and benefits, including payroll taxes; pension and retirement; the purchase of curriculum materials, textbooks, computers and other equipment, software, and supplies; insurance premiums, utilities, janitorial services, audit, legal and financial management services related to the operation of the School and repairs and maintenance of the School's facilities, except for capital repair. Edison shall equip the School's facilities with desks and other furniture and furnishings and these items are considered property of Edison.

Edison must secure and maintain commercial general liability coverage for bodily injury and property damage; Educator Liability coverage; Automobile Liability insurance, for personal injury and property damage; Property Insurance for facilities; and Workers Compensation insurance for employees.

4. Budget

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

B. Personnel

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

In addition, any accrued payroll, the related benefits, and pension obligation for the School's employees are included in the Edison Payable, as these amounts are figured in the amount of revenues remitted to Edison throughout the school year.

C. Agreement Termination

1. Termination by the School

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

2. Termination by Edison

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

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

16. EDISON SCHOOLS, INC. EXPENSES

For the fiscal year ended June, 2006, Edison Schools, Inc. incurred the following expenses on behalf of the School.

	2006
Expenses:	
Direct Expenses	
Salaries and Wages	\$2,709,752
Employee Benefits	633,125
Professional and Technical Services	174,315
Property Services	489,561
Travel	59,126
Communications	9,268
Utilities	109,835
Contracted Craft or Trade Services	268,262
Transportation	37,399
Other Purchased Services	15,357
Books, Periodicals and Films	62,768
Other Supplies	104,719
Other Direct Costs	129,223
Total Expenses	\$4,802,710

17. JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Cooperative Association - The School is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School paid MDECA \$5,148 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

18. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2006, the School has implemented *GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*, and *GASB Statement No. 47, "Accounting for Termination Benefits."*

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the School's financial statements for fiscal year 2006.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

18. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on School District's financial statements for fiscal year 2006.

19. COMPLIANCE

Dayton Academy did not comply with all required laws and regulations for its major federal programs. Several grant requirements were not complied with for the Child Nutrition Cluster and Title I grants.

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DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	05-PU-05	10.553	\$28,282	\$28,282
	05-PU-06		63,630	43,317
Total School Breakfast Program			<u>91,912</u>	<u>71,599</u>
National School Lunch Program	LL-P4-05	10.555	60,073	60,073
	LL-P4-06		187,662	127,752
Total National School Lunch Program			<u>247,735</u>	<u>187,825</u>
Total United States Department of Agriculture - Nutrition Cluster			339,647	259,424
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1-S1-05	84.010	258,026	6,862
	C1-S1-06		415,071	506,531
	C1-SK-05		5,236	
Total Title I Grants to Local Educational Agencies			<u>678,333</u>	<u>513,393</u>
Special Education Cluster:				
Special Education Grants to States	6B-SF-05	84.027	105,262	17,872
	6B-SF-06		33,766	188,518
Total Special Education Grants to States			<u>139,028</u>	<u>206,390</u>
Special Education Preschool Grants	PG-S1-05	84.173	(516)	
	PG-S1-06		463	
Total Special Education Preschool Grants			<u>(53)</u>	
Total Special Education Cluster			<u>138,975</u>	<u>206,390</u>
Safe and Drug-Free Schools and Communities State Grants	DR-S1-05	84.186	7,360	109
	DR-S1-06		13,864	12,875
Total Safe and Drug-Free Schools and Communities State Grants			<u>21,224</u>	<u>12,984</u>
Charter Schools	CH-S1-02	84.282	(34,000)	
State Grants for Innovative Programs	C2-S1-05	84.298	4,582	
	C2-S1-06		3,203	3,093
Total State Grants for Innovative Programs			<u>7,785</u>	<u>3,093</u>
Education Technology State Grants	TJ-S1-05	84.318	7,949	
	TJ-S1-06		7,687	7,687
Total Education Technology State Grants			<u>15,636</u>	<u>7,687</u>
Improving Teacher Quality State Grants	TR-S1-05	84.367	104,016	73,092
	TR-S1-06		73,066	86,581
Total Improving Teacher Quality State Grants			<u>177,082</u>	<u>159,673</u>
Total United States Department of Education			1,005,035	903,220
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through Montgomery County Education Service Center</i>				
Medical Assistance Program	N/A	93.778	597	597
Total United States Department of Health and Human Services			<u>597</u>	<u>597</u>
Total Federal Assistance			<u>\$1,345,279</u>	<u>\$1,163,241</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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



Mary Taylor, CPA

Auditor of State

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

Dayton Academy School
Montgomery County
4401 Dayton Liberty Road
Dayton, Ohio 45418

To the Governing Board:

We have audited the financial statements of the Dayton Academy School (the Academy) as of and for the year ended June 30, 2006, and have issued our report thereon dated March 30, 2007. 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Academy's management dated March 30, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring 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 that we must report under *Government Auditing Standards*. We did note certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated March 30, 2007.

We intend this report solely for the information and use of the audit committee, management, Governing Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 30, 2007



Mary Taylor, CPA

Auditor of State

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

Dayton Academy School
Montgomery County
4401 Dayton Liberty Road
Dayton, Ohio 45418

To the Governing Board:

Compliance

We have audited the compliance of the Dayton Academy School (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

In our opinion, the Dayton Academy School complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are described in the accompanying schedule of findings and questioned costs as items 2006-002 through 2006-004. In a separate letter to the Academy's management dated March 30, 2007 we reported an other matter related to federal noncompliance not requiring inclusion in this report.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated March 30, 2007.

We intend this report solely for the information and use of the audit committee, management, Governing Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 30, 2007

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies CFDA# 84.010 <i>Child Nutrition Cluster</i> School Breakfast Program (SBP) CFDA # 10.553; National School Lunch Program (NSLP) CFDA # 10.555;
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2006-001

The Academy provided reduced and full priced meals (Breakfasts and Lunches) to its students based on the income and household size qualifications as outlined by the United States Department of Agriculture (USDA). The following rates were established by the Academy for each individual meal served:

	<u>Breakfast</u>	<u>Lunch</u>
Reduced	\$ 0.30	\$ 0.40
Full Price	\$ 1.20	\$ 2.10

During the 2005-2006 school year, the Academy served 3,498 reduced and 3,261 full priced breakfast meals including adult meals, as recorded on PCS System reports. At the established rates the Academy should have collected a total of \$4,963 in breakfast receipts. During the same period the Academy served 7,870 reduced and 6,813 full priced lunch meals including adult and a la carte, as recorded on PCS System reports. At the established rates the Academy should have collected \$17,455 in lunch receipts.

Accordingly, the total lunch and breakfast collections for fiscal year 2006 at the Academy should have been \$22,418. Actual lunch and breakfast collections at the Academy amounted to \$13,717. The Academy collected \$8,701 less than it should have based on number of reduced and full priced breakfasts and lunches served combined with any a la carte and adult sales for fiscal year 2006.

Management attributed the variance to the Academy serving meals to reduced and full price students who did not have money to pay for the meals. These students were reported as paid reduced or full priced meals when no money was collected.

The Board should establish formal procedures on serving meals to full price and reduced students who are unable to pay for their meals. This policy should outline the Board's view about serving these students and procedures to subsequently collect the money from the parents. If the student's family is in financial distress a reevaluation of the status of the student might be conducted to see if the student qualifies for free meals. A count of such students should be maintained separately from students who paid for their meals. Additionally the Academy should institute procedures to provide that all breakfast and lunch collections are properly collected and deposited in Academy's bank account. Also, cash receipts for food service should be periodically reviewed by someone independent of the collection process.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2006-002
CFDA Title and Number	Child Nutrition Cluster, CFDA # 10.553 and 10.555
Federal Award Number / Year	05-PU-05, 05-PU-06, LL-P4-05, LL-P4-06
Federal Agency	United States Department of Agriculture (USDA)
Pass-Through Agency	Ohio Department of Education (ODE)

Noncompliance – Meal Applications

7 CFR Section 245.6 states, in part, that to qualify a child for meals/milk served free or at reduced price under the program(s), the child’s family must annually submit an application to the School Food Authority (SFA). The application must be approved and maintained on file. The application establishes that the child’s family income and family size placed him/her within income eligibility standards issued by the State agency in accordance with guidelines published by Food and Nutrition Service (FNS).

Ten out of 60 or 16.7% of the students tested for free and reduced meals did not have a completed application on file indicating the eligibility of the student to participate in the program. Procedures should be established to verify that all students participating in free and reduced meal programs have a completed application on file at the Academy and all applications be approved in accordance with the guidelines established for providing free and reduced meals. Failure to do so could result in students not eligible to receive meals under the program, benefiting from the program or students receiving the wrong type of benefit. Additionally this could result in penalties being assessed and loss of the grant from the awarding agency.

Free and Reduced applications are used to assess poverty levels for various other federal programs. Missing/errors in applications could result in determination of wrong funding amounts by various awarding agencies that base their award on the accuracy of these applications.

Finding Number	2006-003
CFDA Title and Number	Child Nutrition Cluster, CFDA # 10.553 and 10.555
Federal Award Number / Year	05-PU-05, 05-PU-06, LL-P4-05, LL-P4-06
Federal Agency	United States Department of Agriculture (USDA)
Pass-Through Agency	Ohio Department of Education (ODE)

Noncompliance – Lunch Reporting

7 CFR Section 210.15(a) states that participating school food authorities are required to submit forms and reports to the State agency or the distributing agency, as appropriate, to demonstrate compliance with program requirements.

In the State of Ohio, participating organizations in Child Nutrition Cluster must file monthly reports on the number of meals/milk served, by type, to claim program funds. For the National School Lunch Program, and the School Breakfast Program, participating organizations must submit final meal/milk claims to the State no later than 60 days after the claiming month. Financial information must also be reported. This financial information is generally reported on the Ohio Department of Education (ODE) prescribed forms used to report meals/milk served.

The following variances were noted between the number of lunch and breakfast meals served per the Site Claim Form that was submitted to ODE and the Meals Counts by Eligibility Report from the PCS system utilized by the Academy to track the number and type of meals served:

The number of paid lunches served per the PCS Report was 3,982 less than the Site Claim Form submitted to the ODE for the month of August 2005 and 361 less than the Site Claim Form submitted for the month of September 2005. Similarly for August and September 2005, the number of paid breakfast meals served per the PCS report was 2,337 and 398 less than the Site Claim Forms submitted to the ODE. Total variances between the PCS Report and Site Claim Form submitted to ODE were 4,343 for lunches and 2,735 for breakfasts during 2006.

For fiscal year 2006, the Academy received \$0.24 for every paid lunch served and \$0.23 for every paid breakfast served. Due to the above noted reporting variance in number of paid meals served during August 2005, the Academy received an extra \$1,671 in federal receipts from the ODE.

Additionally, a variance of \$61,025 was noted between the total all programs inventory cost report amounts reported on the Site Claim Form by the Academy to the ODE and actual food service expenditures by the Academy. Total expenditures reported by the Academy were more than the actual expenditures.

The Academy should implement procedures to verify that accurate meal counts and financial information are submitted to ODE for reimbursement. Failure to do so could result in federal questioned costs and loss of grant from the awarding agency.

Finding Number	2006-004
CFDA Title and Number	Title I Grants to Local Educational Agencies, CFDA # 84.010
Federal Award Number / Year	C1-S1-05, C1-S1-06, C1-SK-05
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education (ODE)

Questioned Cost – Allowable Costs

According to **U.S. Office of Management and Budget (OMB) Circular A-87, Attachment A** the general criteria affecting allowability of costs under Federal awards are:

- *Reasonable and Necessary* – Costs must be reasonable and necessary for the performance and administration of Federal awards.
- *Allocable* – Costs must be allocable to the Federal awards under the provisions of the cost principles or GASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such objective in accordance with relative benefits received.
- *Costs Documentation* – Costs must be documented in accordance with OMB Circular A-110 for non-profit organizations and institutions of higher education or the A-102 Common Rule for State, local and Indian tribal governments.

The Management Company organized week long seminars at various locations that were expected to be attended by all new employees. The management company charged the school \$1,000 for each employee that attended the conference. A total of \$32,000 was charged to the Academy for conferences including \$10,000 charged to the Title I grant. The management company, however, did not provide details behind the cost charged.

In accordance with the above facts, total federal questioned cost for unallowable expenditures is \$10,000. The Board of Governance should establish and implement policies and procedures to require that all expenditures of the Academy be supported by proper documentation, and reviewed by appropriate management. These procedures would improve internal controls and provide that public monies be expended appropriately and well documented.

We did not receive a response from officials to the findings reported above.

**DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	7 CFR Sections 210.8 (b), 225.9 (d), and 225.15(c)(2) – Questioned cost for reporting meals served in excess of meals purchased.	Yes	
2005-002	7 CFR Section 210.15 (a) – errors in number of meals served and financial data reported to ODE on Site Claim Form	No	Not Corrected, repeated as finding number 2006-003.



Mary Taylor, CPA
Auditor of State

DAYTON ACADEMY

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
SEPTEMBER 11, 2007**