DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

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, 2007, 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 Academy, as of June 30, 2007, 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 7, 2008, 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 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.

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 Schedule Of Federal Awards Receipts and Expenditures 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 Schedule of Federal Awards Receipts and Expenditures 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 7, 2008

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, 2007. 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 increased $110,645, which represents a 18.9 percent increase from fiscal year 2006.

Total assets decreased $560,908, which represents a 24.7 percent decrease from fiscal year 2006.

Liabilities decreased $671,553, which represents a 39.8 percent decrease from fiscal year 2006.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses and change in net assets reflect how the School did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and change in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of the School's net assets for fiscal year 2007 and fiscal year 2006:

(Table 1)
Net Assets

	2007	2006	Change
Assets:			
Current Assets	$1,391,274	$1,945,204	($553,930)
Depreciable Capital Assets, Net	320,988	327,966	(6,978)
Total Assets	1,712,262	2,273,170	(560,908)
Liabilities:			
Current Liabilities	1,016,022	1,687,575	(671,553)
Net Assets:			
Invested in Capital Assets	320,988	327,966	(6,978)
Unrestricted	375,252	257,629	117,623
Total Net Assets	$696,240	$585,595	$110,645

Total assets decreased $560,908, mainly due to a decrease in cash and cash equivalents which was a result of a decrease in State foundation revenues. The School saw a large decrease in enrollment. Capital assets, net of depreciation decreased by $6,978. Liabilities decreased by $671,553 primarily due to a decrease in the Edison payable. This was a result of an overpayment on the April 2006 State foundation as well as a decrease in fiscal year 2007 student foundation. The increase in unrestricted net assets was $117,623 which was the result of the large decrease in liabilities in fiscal year 2007.

Table 2 shows the changes in net assets for fiscal year 2007 and fiscal year 2006.

(Table 2)
Change in Net Assets

	2007	2006	Change
Operating Revenues:			
Sales	$12,412	$21,239	($8,827)
State Foundation	4,423,759	4,779,571	(355,812)
Poverty Based Assistance	637,056	632,062	4,994
Miscellaneous	32,132	32,640	(508)
Total Operating Revenues	5,105,359	5,465,512	(360,153)
Non-Operating Revenues:			
Federal and State Grants	903,829	1,267,141	(363,312)
Gifts and Donations	63,591		63,591
Interest	37,649	25,089	12,560
Total Non-Operating Revenues	1,005,069	1,292,230	(287,161)
Total Revenues	6,110,428	6,757,742	(647,314)
Operating Expenses:			
Purchased Services	5,269,844	6,123,859	(854,015)
Rent	655,162	659,670	(4,508)
Materials and Supplies	65,813	1,556	64,257
Depreciation	6,978	6,978	
Other Expenses	1,986	1,816	170
Total Operating Expenses	5,999,783	6,793,879	($794,096)
Change in Net Assets	110,645	(36,137)	
Net Assets at Beginning of Year	585,595	621,732	
Net Assets at End of Year	$696,240	$585,595	

There was a decrease in revenues of $647,314 mainly in state foundation and federal and state grants, and a decrease in expenses of $794,096 mainly in purchased services, from fiscal year 2006. Revenues decreased due to a large decrease in enrollment resulting in less foundation and grant revenues. The decrease in expenses was 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.

Capital Assets

At the end of fiscal year 2007 the School had $320,988, invested in buildings. This represented a decrease of $6,978 from fiscal year 2006, which was due to the depreciation expense for fiscal year 2007. Table 3 shows total capital assets for fiscal years 2007 and 2006:

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

	2007	2006
Buildings	$320,988	$327,966

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, 2007.

Contacting the School's Financial Management

This financial report is designed to provide our citizens 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.

This page intentionally left blank.

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets	
Current Assets:	
Cash and Cash Equivalents	$753,000
Intergovernmental Receivables	629,605
Accrued Interest Receivable	8,669
Total Current Assets	1,391,274
Non-Current Assets:	
Capital Assets:	
Depreciable Capital Assets, Net	320,988
Total Assets	1,712,262
Liabilities	
Current Liabilities:	
Accounts Payable	109,476
Edison Payable	906,546
Total Liabilities	1,016,022
Net Assets:	
Invested in Capital Assets	320,988
Unrestricted	375,252
Total Net Assets	$696,240

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, 2007

Operating Revenues:	
Sales	$12,412
State Foundation	4,423,759
Poverty Based Assistance	637,056
Miscellaneous	32,132
Total Operating Revenues	5,105,359
Operating Expenses:	
Purchased Services	5,269,844
Rent	655,162
Materials and Supplies	65,813
Depreciation	6,978
Other Operating Expenses	1,986
Total Operating Expenses	5,999,783
Operating Loss	(894,424)
Non-Operating Revenues:	
Federal and State Grants	903,829
Gifts and Donations	63,591
Interest	37,649
Total Non-Operating Revenues	1,005,069
Change in Net Assets	110,645
Net Assets at Beginning of Year	585,595
Net Assets at End of Year	$696,240

See accompanying notes to the basic financial statements.

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from Sales	$12,412
Cash Received from State of Ohio	4,872,959
Cash Received from Miscellaneous Sources	31,728
Cash Payments to Suppliers for Goods and Services	(6,423,837)
Cash Payments to Others	(1,986)
Net Cash Used for Operating Activities	(1,508,724)
Cash Flows from Noncapital Financing Activities:	
Federal and State Subsidies Received	686,561
Gifts and Donations	63,591
Net Cash Provided by Noncapital Financing Activities	750,152
Cash Flows from Investing Activities:	
Interest	31,918
Net Decrease in Cash and Cash Equivalents	(726,654)
Cash and Cash Equivalents at Beginning of Year	1,479,654
Cash and Cash Equivalents at End of Year	753,000
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(894,424)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	6,978
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable	50,275
Decrease in Intergovernmental Payable	(238,535)
Increase in Accounts Payable	87,703
Decrease in Benefits Payable	(23,090)
Decrease in Edison Payable	(497,631)
Total Adjustments	(614,300)
Net Cash Used for Operating Activities	($1,508,724)

Noncash:

The School had outstanding intergovernmental receivables related to non-operating grants of $629,201 at June 30, 2007.

See accompanying notes to the basic financial statements.

This page intentionally left blank.

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 of Trustees exercises its authority by appointing a separate six member Board of Governance for the School. The Board of Trustees is responsible for carrying out the provisions of the sponsor 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 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 School, Dayton View Academy School, Alliance Facilities Management, and Alliance Edison. 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 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. The more significant of the School's accounting policies are described below.

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 fiscal 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 revenues, expenses and 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 its cash flow needs.

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.

D. Revenues – Exchange and Non-Exchange Transactions

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, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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.

E. Expenses

Expenses are recognized at the time they are incurred.

F. Cash and Cash Equivalents

During fiscal year 2007, the School's investments were limited to non-negotiable certificates of deposit and repurchase agreements, which are reported at cost.

Investments with an original maturity of three months or less at the time they are purchased by the School are presented on the financial statements as cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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 fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of $1,000. The School does not possess 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 an asset's life are not. All reported capital assets are depreciated. Buildings are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over 50 years.

H. 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. The School has no debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School did not have any restricted net assets as of June 30, 2007.

I. 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.

J. Intergovernmental Revenues

The School currently participates in the State Foundation Program, 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.

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.

K. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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.

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 fiscal year-end, $350,000 of the School's bank balance of $525,429 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution.

The School has no policy for custodial risk for deposits.

B. Investments

As of June 30, 2007, the School had the following investments:

	Fair Value	Maturity
Repurchase Agreements	$235,996	Less than 30 Days

1. Interest Rate Risk

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

2. Credit Risk

The underlying investment in the repurchase agreement is a Federal National Mortgage Association Note which carries a rating of Aaa by Moody's. The School has no investment policy that addresses credit risk.

4. RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental (State Foundation and Federal and State grants) and accrued interest 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	$235,417
Improving Teacher Quality	78,009
Title II-D	2,404
Safe and Drug Free Schools	7,835
Title V	1,394
IDEA-B	233,954
Food Service Subsidy	46,174
IRS Refund	404
State Foundation	24,014
Total Intergovernmental Receivable	$629,605

5. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 6/30/06	Additions	Deductions	Balance 6/30/07
Capital Assets, Being Depreciated:				
Building	$348,900			$348,900
Less Accumulated Depreciation:				
Building	(20,934)	($6,978)		(27,912)
Governmental Activities Capital Assets, Net	$327,966	($6,978)	$0	$320,988

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, 2007, 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 Hilb Rogal & Hobbs of New York, LLC for employee dishonesty (crime and fiduciary) bonds, business personal property, equipment hardware and software, general liability, and excess liability insurance.

Employee dishonesty crime coverage carries a $50,000 deductible and has a $1,000,000 limit. Employee dishonesty fiduciary liability also has a limit of $1,000,000, with $50,000 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, or by calling toll-free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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, 2007, 2006, and 2005, were $21,101, $46,009, and $55,299, 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 43215-3771, by calling toll-free (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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.

7. DEFINED BENEFIT PENSION PLANS (Continued)

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, 2007, 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 2006, 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, 2007, 2006, and 2005, were $315,889, $392,539, and $306,195, respectively; 100 percent has been contributed for all three fiscal years. Contributions to the DC and Combined Plans for fiscal year 2007 were $14,074 made by the School and $13,404 made by the plan members.

8. POST-EMPLOYMENT 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 reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS 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, 2007, 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 $24,299 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS Ohio had 119,184 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.

8. POST-EMPLOYMENT BENEFITS (Continued)

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including surcharge, during the 2007 fiscal year equaled $6,559.

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, 2006 (the latest information available) were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 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 employees are paid by Edison Schools, Inc.

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, 2007 was $71,779 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)

B. Board of Governance

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

C. Sponsor Fees

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 2007 were $59,387.

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 original lease commenced on August 1, 1999 through June 30, 2004. The School had 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 2007 the amount was $7.87 per student. This amount increases by three percent in August each year. Rent paid for the land for the year ended June 30, 2007 was $71,779.

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 costs, ongoing loan administration costs associated with any financing secured by the premises, including but not limited to, costs associated with satisfying the financial reporting and periodic appraisal requirements; plus out of pocket expenses incurred by AFM; plus $5,000 per fiscal year. Lease payments for the building for the fiscal year ended June 30, 2007 were $583,383.

12. STATE SCHOOL FUNDING DECISION

A lawsuit entitled Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on Dayton Academy cannot presently be determined.

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.

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 $24,014 in November 2007 from the funding adjustment.

14. PURCHASED SERVICES

For the fiscal year ended June 30 2007, purchased services expenses for services rendered by various vendors were as follows:

Management Company Fees	$4,794,619
Alliance Community Schools	126,407
Sponsorship Fee	59,387
Unicco Janitorial Contract	289,431
Total	$5,269,844

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 Schools, Inc.'s unique school design, comprehensive educational programs, and management principles. The term of the contract is July 1, 2004 through June 30, 2009. The contract may 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 Schools, Inc. 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 Schools, Inc. all qualified gross revenue defined in the contract as "Appendix F" except for $94,554, sponsorship fees and rent and common area rental. The following is a summary of current payment activity to Edison Schools, Inc:

Amount due current fiscal year	$4,426,771
Amount remitted current fiscal year	(3,520,225)
Edison Payable	$906,546

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.

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 Schools, Inc. shall equip the School's facilities with desks and other furniture and furnishings and these items are considered property of Edison Schools, Inc.

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

Edison Schools, Inc. 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 Schools, Inc. 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 Schools, Inc.'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 account Edison Payable, as these amounts are figured in the amount of revenues remitted to Edison Schools, Inc. throughout the school year.

C. Agreement Termination

1. Termination by the School

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

2. Termination by Edison Schools, Inc.

Edison Schools, Inc. 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 Schools, Inc.

16. EDISON SCHOOLS, INC. EXPENSES

For the fiscal year ended June, 2007, Edison Schools, Inc. incurred the following expenses on behalf of the School.

	2007
Expenses:	
Direct Expenses	
Salaries and Wages	$2,515,229
Employee Benefits	872,233
Professional and Technical Services	181,707
Property Services	134,073
Travel	16,089
Communications	18,323
Utilities	108,085
Contracted Craft or Trade Services	226,488
Transportation	37,197
Other Purchased Services	16,399
Books, Periodicals and Films	112,882
Other Supplies	79,439
Other Direct Costs	130,554
Total Expenses	$4,448,698

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 $4,664 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.

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
Nutrition Cluster				
School Breakfast Program	05-PU-06	10.553	$18,714	$18,714
	05-PU-07		54,459	49,382
Total School Breakfast Program			73,173	68,096
National School Lunch Program	LL-P4-06	10.555	52,819	52,819
	LL-P4-07		164,589	148,147
Total National School Lunch Program			217,408	200,966
Total U.S. Department of Agriculture - Nutrition Cluster			290,581	269,062
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Title I Grants to Local Educational Agencies	C1-S1-06	84.010	87,153	
	C1-S1-07			235,341
Total Title I Grants to Local Educational Agencies			87,153	235,341
Special Education Cluster:				
Special Education Grants to States	6B-SF-06	84.027	242,616	32,497
	6B-SF-07			233,952
Total Special Education Grants to States:			242,616	266,449
Special Education Preschool Grants	PG-S1-06	84.173	(409)	
	PG-S1-07		409	
Total Special Education Preschool Grants				
Total Special Education Clustrer			242,616	266,449
Safe and Drug-Free Schools and Communities State Grants	DR-S1-06	84.186	2,529	3,518
	DR-S1-07			4,296
Total Safe and Drug-Free Schools and Communities State Grants			2,529	7,814
State Grants for Innovative Programs	C2-S1-06	84.298		110
	C2-S1-07			1,394
Total State Grants for Innovative Programs				1,504
Education Technology State Grants	TJ-S1-07	84.318		2,404
Improving Teacher Quality State Grants	TR-S1-06	84.367	14,053	537
	TR-S1-07			71,098
Total Improving Teacher Quality State Grants			14,053	71,635
Total U.S. Department of Education			346,351	585,147
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Montgomery County Educational Service Center:				
Medical Assistance Program	N/A	93.778	217	
Total U.S. Department of Health and Human Services			217	
Total Federal Assistance			$637,149	$854,209

The accompanying notes are an integral part of this schedule.

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – COMMUNITY ALTERNATIVE FUNDING SYSTEM

As of July 1, 2005, the Community Alternative Funding System (CAFS) program (CFDA #93.778) no longer exists as a funding stream. Settlement payments for services rendered prior to June 30, 2005 are reported as receipts only on the Schedule.

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 basic financial statements of the Dayton Academy School, Montgomery County, (the Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 7, 2008. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

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 Financial Reporting
(Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated March 7, 2008.

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 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 7, 2008.

The Academy's responses to the findings identified in our audit are described in the accompanying Officials' Responses and Corrective Action Plan. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the management, the Governing Board, the Community School's sponsor, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 7, 2008

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 Dayton Academy School, Montgomery County (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, 2007. The summary of auditor's results section of the accompanying schedule of findings 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 Academy complied, in all material respects, with the requirements referred to above applying to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2007-003.

Internal Control over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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
(Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Academy's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to administer a federal program such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as finding 2007-003 to be a significant deficiency.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the Academy's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider finding 2007-003 described in the accompanying schedule of findings to be a material weakness.

In a separate letter to the Academy's management dated March 7, 2008, we reported another matter related to federal internal control matters not requiring inclusion in this report.

The Academy's response to the finding we identified is described in the accompanying Officials' Responses and Corrective Action Plan. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 7, 2008

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR FISCAL YEAR ENDED JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weaknesses reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any other significant deficiencies in internal control 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 weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any other significant deficiencies in internal control 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):**	Child Nutrition Cluster School Breakfast Program (SBP) CFDA #10.553; National School Lunch Program (NSLP) CFDA # 10.555 Special Education Cluster Grants to States IDEA, Part B CFDA # 84.027
(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 2007-001

Significant Deficiency

The Academy utilized memo transactions during the year to record electronic fund transfers made to the Management Company, Edison Schools Inc., and for foundation withholdings for pension payments for the State Teachers Retirement System (STRS) and School Employees Retirement System (SERS). The Treasurer assigned a transaction number to each memo transaction.

Per inspection of the Academy's accounting records, specifically the check register, it was noted that memo transactions were not assigned sequential transaction numbers. For example, memo entry 902207 was posted on 2/20/07 while memo entry 912011 was posted on 12/31/06. Failure to assign sequential numbers to these transactions could result in errors or omissions not being detected in a timely manner and the financial statement expenditures being misstated. Using sequential transaction numbers provides for completeness that all expenditures have been executed and posted. To improve the Academy's internal controls over the expenditure process, the Academy should implement procedures to provide that all memo expenditures be assigned sequential transaction numbers.

Officials' Response: See page 34.

FINDING NUMBER 2007-002

Significant Deficiency

The Academy provided reduced and full priced meals (breakfast and lunch) 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:

	Breakfast	Lunch
Reduced	$0.30	$0.40
Full Price	$1.20	$2.10

During the 2006-2007 school year, the Academy served 2,386 reduced and 1,519 full priced breakfast meals, as recorded on PCS System reports. At the established rates, the Academy should have collected a total of $2,539 in breakfast receipts. During the same period the Academy served 6,338 reduced and 4,628 full priced lunch meals, as recorded on PCS System reports. At the established rates the Academy should have collected $12,254 in lunch receipts.

Accordingly, the total lunch and breakfast collections for fiscal year 2007 for the Academy should have been $14,793. Actual lunch and breakfast collections for the Academy amounted to $9,987. The Academy collected $4,806 less than it should have based on the number of reduced and full priced breakfast and lunch meals served for fiscal year 2007. This could result in a receivable being omitted from the financial statements. Management attributed the variance to the Academy serving meals to full price and reduced price students who did not have money to pay for the meals. These students were reported as paid reduced or full priced meals, but no money was collected.

FINDING NUMBER 2007-002

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 money from the appropriate individual. If the student's family is in financial distress, a re-evaluation of the status of the student might be conducted to determine if the student qualifies for free meals. A count of such students should be maintained separately from students who have paid for their meals. Additionally, the Academy should institute procedures to provide that all breakfast and lunch collections are properly collected and deposited in the Academy's bank account. Cash receipts for food service should be periodically reviewed by an individual independent from the collection process.

Officials' Response: See page 34.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Noncompliance and Material Weakness

Finding Number	2007-003
CFDA Title and Number	All CFDA Titles and Numbers
Federal Award Number / Year	2007
Federal Agency	United States Department of Education United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Office of Management and Budget (OMB) Circular A-133 Subpart C, §__.310(b) Schedule of Expenditures of Federal Awards, states that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately.

At a minimum, the schedule shall:

1. List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

2. For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

3. Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

4. Include notes that describe the significant accounting policies used in preparing the schedule.

5. To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program.

FINDING NUMBER 2007-003
(Continued)

6. Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

The Academy received federal funds from the Ohio Department of Education and remitted those funds to the Management Company (Edison Schools) for expenditure. Although the federal dollars were remitted to the management company, the federal dollars were in the name of the Academy, and the Academy had the ultimate responsibility for ensuring proper posting and expenditure of all federal dollars. The Academy recorded expenditures on its Schedule of Federal Awards Expenditures based on the remittances to the Management Company which did not coincide with the timing of the actual expenditures by the Management Company.

The Academy's 2007 Schedule of Federal Awards Expenditures, which was presented on the cash basis of accounting, had the following errors:

- Nutrition Cluster revenues of $290,581 and expenditures of $269,062 were not included on the schedule;
- Federal Expenditures for Comprehensive Continuous Improvement Plan grants (Title I, Title II-A, Title V, IDEA-B, etc) were overstated by $208,802.

To reduce the risk of inaccurate reporting of federal expenditures and noncompliance with OMB Circular A-133, Subpart C, §__.310(b), due care should be taken in the preparation of the Schedule of Federal Awards Receipts and Expenditures. The Schedule should be reviewed after preparation and tied to the underlying cash reports of the Academy for accuracy.

Officials' Response: See page 34.

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, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Serving meals to reduced and full priced students who did not pay for the meals that they received.	No	Not Corrected. Repeated as Finding 2007-002.
2006-002	**7 CFR Sections 245.6** – Questioned cost for students receiving free and reduced meals not having a completed application.	Yes	
2006-003	**7 CFR Section 210.15 (a)** – errors in number of meals served and financial data reported to ODE on Site Claim Form	Yes	
2006-004	**U.S Office of Management and Budget (OMB) Circular A-87, Attachment A** – allowability of costs under Federal awards	Yes	

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

OFFICIALS' RESPONSES AND CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2007

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2007-001	Our memo numbers always start with a "9" and the following numbers represent the date. For example an entry for February 10, 2007 would read 902107. We always reconcile bank statements promptly so any omission would be detected at that time. We feel having a posting system that is referenced to a date is an important procedure to us.	N/a	Phyllis Bixler, Treasurer
2007-002	Procedures will be implemented to collect money for reduced and full priced meals. If a student's family is in financial distress, the status of the student will be reviewed to determine if the student qualifies for free breakfast and/or lunch. A system shall be established to assure breakfast and lunch money is collected and deposited in the School's checking account and recorded properly.	June 30, 2008	Site Operational Manager
2007-003	After the close of the fiscal year, we will contact Edison, Inc. for actual expenditures of all federal projects during the fiscal year. At a minimum, the report shall include the requirements listed in the finding.	July 30, 2008	Phyllis Bixler, Treasurer

Mary Taylor, CPA
Auditor of State

DAYTON ACADEMY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 8, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us