



**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**DAYTON ACADEMY  
MONTGOMERY COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Dayton Academy  
Montgomery County  
4410 Dayton Liberty Road  
Dayton, Ohio 45418

To the Governing Board:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of Dayton Academy, Montgomery County, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof 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 February 27, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussions 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.

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 Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

February 27, 2006

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of the Dayton Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

In total, net assets decreased \$168,477, which represents a 21.3 percent decrease from 2004.

Total assets increased \$534,662, which represents a 32.9 percent increase from 2004.

Liabilities increased \$703,139, which represents a 84.3 percent increase from 2004.

**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 Academy's net assets for fiscal year 2005 and fiscal year 2004:

**(Table 1)  
Net Assets**

	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Current Assets	\$1,824,108	\$1,282,468
Depreciable Capital Assets, Net	334,944	341,922
Total Assets	<u>2,159,052</u>	<u>1,624,390</u>
<b>Liabilities</b>		
Current Liabilities	<u>1,537,320</u>	<u>834,181</u>
<b>Net Assets</b>		
Invested in Capital Assets	334,944	341,922
Unrestricted	286,788	448,287
Total Net Assets	<u><u>\$621,732</u></u>	<u><u>\$790,209</u></u>

Total assets increased \$534,662. Cash and cash equivalents increased by \$559,072 from 2004. The increase in cash and cash equivalents was due to the timing of invoices being received and paid by the Academy. Intergovernmental Receivables decreased by \$17,432. Capital Assets, net of depreciation decreased by \$6,978. Liabilities increased by \$703,139 due to an increase in the payable due to Edison Schools Inc. for services provided.

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2005.

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

	<u>2005</u>	<u>2004</u>
<b>Operating Revenues:</b>		
Sales	\$20,033	\$42,395
State Foundation	5,656,524	5,806,314
Disadvantaged Pupil Impact Aid	564,944	883,469
Miscellaneous	20,670	18,861
<b>Non-Operating Revenues:</b>		
Federal and State Grants	1,514,766	1,788,158
Interest	6,907	6,444
<b>Total Revenues</b>	<u>7,783,844</u>	<u>8,545,641</u>
<b>Operating Expenses</b>		
Fringe Benefits	387,782	433,691
Purchased Services	6,879,877	7,186,693
Rent	667,068	676,149
Materials and Supplies	8,677	110
Depreciation	6,978	6,978
Other Expenses	1,939	1,788
<b>Total Expenses</b>	<u>7,952,321</u>	<u>8,305,409</u>
<b>Change in Net Assets</b>	(168,477)	240,232
<b>Net Assets Beginning of Year</b>	<u>790,209</u>	<u>549,977</u>
<b>Net Assets End of Year</b>	<u><u>\$621,732</u></u>	<u><u>\$790,209</u></u>

Net assets decreased from 2004 to 2005, by \$168,477. There was a decrease in revenues of \$761,797 and a decrease in expenses of \$353,088 from 2004. Revenues decreased due to a decrease in enrollment. Expenses decreased due to a decrease in federal grant money resulting in a decrease in federal programs.

Salaries for the Academy are generated by a management company. STRS and SERS are withheld from the State Foundation monthly payments. The expense for fringe benefits decreased by \$45,909 due to a decrease in foundation deductions for retirement.



**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

**Capital Assets**

At the end of fiscal year 2005 the Academy had \$334,944, invested in buildings, which represented a decrease of \$6,978 from 2004, which was the depreciation expense for fiscal year 2005. Table 3 shows fiscal year 2005 and fiscal year 2004:

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

	<u>2005</u>	<u>2004</u>
Buildings	<u>\$334,944</u>	<u>\$341,922</u>

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

**Debt Administration**

The Academy does not have any outstanding debt at June 30, 2005.

**Current Financial Issues**

In the prior years, the Academy had experienced adjustments to the State Foundation Payments. These adjustments were the result of incorrect student reporting for the previous School Year. This results in adjustments being made in the current year. Considerable effort has been made to improve the reporting procedures. The Academy has been successful in their endeavor and does not expect a significant adjustment for fiscal year 2005. Also, federal monies are planned to be used within the allocation year. These steps will allow historical data to be built and used as management tools.

**Contacting the Academy's Financial Management**

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

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005**

**Assets**

**Current Assets:**

Cash and Cash Equivalents	\$1,268,228
Intergovernmental Receivables	<u>555,880</u>
Total Current Assets	1,824,108

**Non-Current Assets:**

Capital Assets:

Depreciable Capital Assets, Net	<u>334,944</u>
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Total Assets	<u>2,159,052</u>
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**Liabilities**

**Current Liabilities:**

Accounts Payable	5,589
Accrued Wages	23,090
Edison Payable	<u>1,508,641</u>

Total Liabilities	<u>1,537,320</u>
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**Net Assets:**

Invested in Capital Assets	334,944
Unrestricted	<u>286,788</u>
	<u><u>\$621,732</u></u>

*See accompanying notes to the basic financial statements.*

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<b>Operating Revenues:</b>	
Sales	\$20,033
State Foundation	5,656,524
Disadvantaged Pupil Impact Aid	564,944
Miscellaneous	<u>20,670</u>
Total Operating Revenues	<u>6,262,171</u>
<b>Operating Expenses:</b>	
Fringe Benefits	387,782
Purchased Services	6,879,877
Rent	667,068
Materials and Supplies	8,677
Depreciation	6,978
Other	<u>1,939</u>
Total Operating Expenses	<u>7,952,321</u>
<i>Operating Loss</i>	<u>(1,690,150)</u>
<b>Non-Operating Revenues:</b>	
Federal and State Grants	1,514,766
Interest	<u>6,907</u>
Total Non-Operating Revenues	<u>1,521,673</u>
Change in Net Assets	(168,477)
Net Assets Beginning of Year	<u>790,209</u>
Net Assets End of Year	<u><u>\$621,732</u></u>

*See accompanying notes to the basic financial statements.*

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

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

**Increase (Decrease) in Cash and Cash Equivalents:**

**Cash Flows from Operating Activities:**

Cash Received from Sales	\$20,033
Cash Received from State of Ohio	6,373,949
Cash Received from Miscellaneous Sources	20,670
Cash Payments for Fringe Benefits	(388,284)
Cash Payments to Suppliers for Goods and Services	(6,851,981)
Cash Payments to Others	<u>(1,939)</u>
 Net Cash Used for Operating Activities	 (827,552)

**Cash Flows from Noncapital Financing Activities:**

Federal and State Grants Received	1,379,717
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**Cash Flows from Investing Activities:**

Interest	<u>6,907</u>
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Net Increase in Cash and Cash Equivalents	559,072
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Cash and Cash Equivalents at Beginning of Year	<u>709,156</u>
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Cash and Cash Equivalents at End of Year	<u><u>1,268,228</u></u>
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**Reconciliation of Operating Loss to Net**

**Cash Used for Operating Activities:**

Operating Loss	<u>(1,690,150)</u>
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**Adjustments to Reconcile Operating**

**Loss to Net Cash Used for Operating Activities:**

Depreciation	6,978
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable	152,481
Increase in Accounts Payable	1,802
Decrease in Accrued Wages and Benefits	(1,102)
Increase in Edison Payable	<u>702,439</u>

Total Adjustments	<u>862,598</u>
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Net Cash Used for Operating Activities	<u><u>(\$827,552)</u></u>
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*See accompanying notes to the basic financial statements.*

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

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

The Academy 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 Academy's tax-exempt status.

The creation of the Academy 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 Academy operations beginning the fiscal year 2000 and termination upon conclusion of the fiscal year 2004.

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

The Academy operates under a seven member Board of Trustees. This Board exercises its authority by appointing a separate five member Board of Governance for the Academy. 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 Academy's one instructional facility staffed by 61 teaching personnel who provide services to approximately 943 students.

The Academy is associated with the Metropolitan Dayton Education 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 and Dayton View Academy. 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 Academy 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 Academy 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 Academy has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its proprietary fund. The more significant of the Academy's accounting policies are described below.

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation**

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

The Academy 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, all assets and all liabilities associated with the operation of the Academy 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 Academy 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 Academy's financial statements are prepared using the accrual basis of accounting.

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

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. Cash and Cash Equivalents**

The Academy maintains a public funds sweep account which contains checking as well as overnight repurchase agreements. All funds of the Academy are maintained in this account. This account is presented on the statement of net assets as "Cash and Cash Equivalents".

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Capital Assets**

All 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. The Academy maintains a capitalization threshold of one thousand dollars. Donated fixed 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. Depreciation is computed using the straight-line method over 50 years.

**F. Compensated Absences**

The Academy's contract with Edison Schools, Inc. states that all employees will follow Edison's personnel policies. This policy states that any unused sick leave does not carryover to successive years, and there is no payment of sick leave upon separation. In addition, the policy states that all vacation should be taken within one year. 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 Academy 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 Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Academy did not have any restricted net assets as of June 30, 2005.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, 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 Academy. Revenues and expenses not meeting this definition are reported as non-operating.

**I. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program 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 Academy must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the Academy on a reimbursement basis.

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The amount of these grants is directly related to the number of students enrolled in the Academy. The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. This review did not result in an adjustment to foundation revenue in the fiscal year 2005 financial statements.

The remaining grants and entitlements received by the Academy 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, except 5705.391 which requires a five year projection of operational revenues and expenditures. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore no budgetary information is presented in the financial statements.

**3. DEPOSITS AND INVESTMENTS**

**A. Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, none of the Academy's bank balance of \$20,382 was exposed to custodial credit risk and the entire balance was covered by the federal depository insurance.

The Academy has no deposit policy for custodial risk beyond the requirements of the State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either the Academy or a qualified trustee by the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**B. Investments**

As of June 30, 2005, the Academy invested in a repurchase agreement. The fair value of the repurchase agreement was \$1,252,695.

**C. Interest Rate Risk**

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

**D. Credit Risk**

The underlying investment in the repurchase agreement was a Federal National Mortgage Association Note which carried a rating of AAA by Moody's and had a final maturity of July 1, 2018. The Academy has no investment policy that would limit its investment choices.



**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**4. RECEIVABLES**

Receivables at June 30, 2005, 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:

Lunchroom Federal Subsidy	\$63,449
Title I	263,262
Title II-A	104,016
Title II-D	7,949
IDEA – B	105,262
Early Childhood	4,582
Drug Free School	7,360
Total Intergovernmental Receivable	\$555,880

**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, was as follows:

	<b>Balance 6/30/04</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 6/30/05</b>
Capital Assets, Being Depreciated:				
Building	\$348,900	\$0	\$0	\$348,900
Less Accumulated Depreciation:				
Building	(6,978)	(6,978)	0	(13,956)
Governmental Activities Capital Assets, Net	\$341,922	(\$6,978)	\$0	\$334,944

**6. RISK MANAGEMENT**

The Academy 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 year ended 2005, the Academy'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.

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 \$963,050 limit. Business personal property has a limit of \$705,859, 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, and \$5,000 for medical expenses for any one person. There have been no significant reductions in insurance coverage from last year. Settled claims have not exceeded insurance coverage for the past three years.

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy's rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 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 Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$55,299, \$56,889, and \$81,705, respectively; 100 percent has been contributed for all three fiscal years.

**B. State Teachers Retirement System of Ohio**

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://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 times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of 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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$306,195, \$330,012, and \$348,100, respectively; 100 percent has been contributed for all three fiscal years. Contributions to the DC and Combined Plans for fiscal year 2005 were \$15,864 made by the Academy and \$20,263 made by the plan members.

**8. POSTEMPLOYMENT BENEFITS**

The Academy 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 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, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$23,553 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the 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 fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**8. POSTEMPLOYMENT 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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the Academy paid \$17,945 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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

**9. EMPLOYEE BENEFITS**

As part of the management agreement with Edison Schools, Inc, (See Note 15), medical, dental, and vision benefits for Academy Employees are paid by Edison.

**10. RELATED PARTY TRANSACTIONS**

**A. Alliance Edison, LLC (AE)**

The Academy leases its facilities and land from Alliance Edison, LLC (AE). The lease expense for the year ended June 30, 2005 was \$83,685 for the land and \$583,383 for the building. (See note 11)

**B. Board of Governance**

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

**11. LEASES**

The Academy 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 Edison, LLC (AE). (See note 10A.) The term of the lease commenced on August 1, 1999 through June 30, 2004. The Academy had an option to renew the lease for four additional terms of five years. On October 15, 2004 the Academy renewed the lease for the period July 1, 2004 through June 30, 2009. AE leases the land from the Young Men's Christian Association (YMCA). The Academy agreed to pay AE, as rent for the land, an amount based on student enrollment each month. For the fiscal year 2005 the amount was \$7.42 per student. This amount increases by three percent in August each year. Rent paid for the land for the year ended June 30, 2005 was \$83,685.

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**11. LEASES (Continued)**

The lease also states the Academy must pay AE 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 AE; plus \$5,000 per year. Lease payments for the building for the year ended June 30, 2005 were \$583,383.

**12. STATE SCHOOL FUNDING DECISION**

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

**B. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and 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. This review did not result in an adjustment to foundation revenue in the fiscal year 2005 financial statements.

**14. PURCHASED SERVICES**

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

Management Company Fees	\$6,795,464
Alliance Community Schools	<u>84,413</u>
Total	<u>\$6,879,877</u>

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**15. AGREEMENT WITH EDISON SCHOOLS, INC.**

The Academy 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. On July 1, 2004, the Academy renewed the contract with Edison Schools Inc. 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. 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 Academy in accordance with the Academy's contract with the Thomas B. Fordham Foundation for continued operation of the Academy. Significant provisions of the contract are as follows:

**A. Financial Provisions**

**1. Management Consulting and Operation Fee**

The Academy is required to remit monthly to Edison all qualified gross revenue defined in the contract as "all external source revenue which the Academy receives and for which the Academy or its students are eligible from federal or State sources," except for \$84,413 and rent and common area rental. The following is a summary of current payment activity to Edison:

Amount due current fiscal year	\$6,795,464
Amount remitted current fiscal year	<u>(5,286,823)</u>
Accrued Edison Fees	<u>\$1,508,641</u>

**2. The Academy's Financial Responsibility**

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

**3. Edison Financial Responsibilities**

Edison is responsible for costs associated with operating the Academy. 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 Academy and repairs and maintenance of the Academy's facilities, except for capital repair. Edison shall equip the Academy'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 Academy with an annual budget, in reasonable detail, by the 30<sup>th</sup> of June of each year.

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**B. Personnel**

All personnel working at the Academy are employees of the Alliance Community Schools, Inc. Edison shall have the responsibility to select, assign, evaluate, and discharge Academy 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 Academy's employees are included in the Accrued Edison Fees, as these amounts are figured in the amount of revenues remitted to Edison throughout the school year.

**C. Agreement Termination**

**1. Termination by the Academy**

The Academy 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 Academy.

**2. Termination by Edison**

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

**16. EDISON SCHOOLS, INC. EXPENSES**

For the fiscal year ended June 30, 2005, Edison Schools, Inc. incurred the following expenses on behalf of the Academy.

<b>Expenses:</b>	
Direct Expenses	
Salaries and Wages	\$2,903,204
Employee Benefits	484,491
Professional and Technical Services	224,620
Property Services	519,943
Travel	34,794
Communications	30,799
Utilities	97,096
Contracted Craft or Trade Services	403,067
Other Purchased Services	13,271
Books, Periodicals and Films	41,863
Other Supplies	117,436
Depreciation	281,326

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**17. JOINTLY GOVERNED ORGANIZATION**

**Metropolitan Dayton Educational Cooperative Association** - The Academy 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 Academy paid MDECA \$3,749 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**

During the year 2005, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure". GASB Statement No. 40 establishes and modifies the disclosure requirement related to investment risks. The implementation of this statement did not result in any change to the Academy's financial statements.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the Academy's financial statements for fiscal year 2005.



**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>				
Passed Through Ohio Department of Education:				
Nutrition Cluster:				
National School Breakfast Program	05-PU-04	10.553	\$42,459	\$42,459
	05-PU-05		89,376	89,376
Total National School Breakfast Program			<u>131,835</u>	<u>131,835</u>
National School Lunch Program	LL-P4-04	10.555	120,505	120,505
	LL-P4-05		217,480	217,480
Total National School Lunch Program			<u>337,985</u>	<u>337,985</u>
Total United States Department of Agriculture - Nutrition Cluster			469,820	469,820
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>				
Passed Through Ohio Department of Education:				
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-04	84.010	156,236	130,509
	C1-S1-05		505,429	756,593
	C1-SK-04		(9,000)	
	C1-SK-05		14,000	19,236
Total ESEA Title I Grant			<u>666,665</u>	<u>906,338</u>
Special Education Cluster:				
Special Education Grants to States (IDEA part B)	6B-SF-04	84.027	39,975	
	6B-SF-05		49,635	137,025
Total Special Education Grants to States			<u>89,610</u>	<u>137,025</u>
Special Education Preschool Grant	PG-S1-05	84.173	231	
Total Special Education Cluster			89,841	137,025
Safe and Drug Free Schools and Communities_State Grant	DR-S1-04	84.186	3,161	
	DR-S1-05		12,392	19,643
Total Safe and Drug Free Schools and Communities_State Grant			<u>15,553</u>	<u>19,643</u>
State Grants for Innovative Programs	C2-S1-04	84.298	1,380	542
	C2-S1-05		576	5,158
Total State Grants for Innovative Programs			<u>1,956</u>	<u>5,700</u>
Education Technology State Grant	TJ-S1-04	84.318	1,204	
	TJ-S1-05		14,063	22,012
Total Education Technology State Grant			<u>15,267</u>	<u>22,012</u>
Improving Teacher Quality State Grant	TR-S1-04	84.367	377	1,837
	TR-S1-05		74,226	105,150
Total Improving Teacher Quality State Grants			<u>74,603</u>	<u>106,987</u>
Total United States Department of Education			863,885	1,197,705
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through Montgomery County Educational Service Center:				
Medical Assistance Program	N/A	93.778	101	101
Total United States Department of Health and Human Services			<u>101</u>	<u>101</u>
<b>Total Federal Assistance</b>			<b><u>\$1,333,806</u></b>	<b><u>\$1,667,626</u></b>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards 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.



## Auditor of State Betty Montgomery

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

Dayton Academy  
Montgomery County  
4410 Dayton Liberty Road  
Dayton, Ohio 45418

To the Governing Board:

We have audited the financial statements of the business-type activity of Dayton Academy, Montgomery County, (the Academy), as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated February 27, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **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*. In a separate letter to the Academy's management dated February 27, 2006, we reported another matter related to noncompliance we deemed immaterial.

Dayton Academy  
Montgomery County  
Independent Accountants' Report On Internal Control Over  
Financial Reporting And On Compliance And Other Matters  
Required By *Government Auditing Standards*  
Page 2

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

**Betty Montgomery**  
Auditor of State

February 27, 2006



## Auditor of State Betty Montgomery

### 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  
Montgomery County  
4410 Dayton Liberty Road  
Dayton, Ohio 45418

To the Governing Board:

#### Compliance

We have audited the compliance of Dayton Academy, 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 its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal program. 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.

As described in item 2005-001 in the accompanying schedule of findings and questioned costs, the Academy did not comply with the requirement regarding reporting applying to its National School Breakfast program. Compliance with that requirement is necessary, in our opinion, for the Academy to comply with the requirements applicable to that program.

The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2005-002.

### **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 a matter 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 February 27, 2006.

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



**Betty Montgomery**  
Auditor of State

February 27, 2006

**DAYTON ACADEMY  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**1. Breakfasts Served and Reimbursed**

<b>Finding Number</b>	2005-001
<b>CFDA Title and Number</b>	National School Breakfast Program, CFDA # 10.553
<b>Federal Award Number / Year</b>	05-PU-04, 05-PU-05
<b>Federal Agency</b>	United States Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**7 CFR sections 210.8(b), 225.9(d), and 225.15(c)(2)** states that to receive reimbursement payments for meals served, a School Food Authority (SFA), institution, or sponsor must submit claims for reimbursement to its administering agency. The claims process pursuant to **7 CFR sections 210.7(c), 210.8(c), and 225.9(d)** is as follows:

At a minimum, a claim must include the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must be of types authorized by the SFA's, institution's, or sponsor's administering agency; must be served to eligible children; and must be supported by accurate meal counts and records indicating the number of meals served by category and type.

The Ohio Department of Education (ODE) reimbursed the Academy for various types of meals at the following rate for each meal served:

<b>Meal Type</b>	<b>Breakfast</b>	<b>Lunch</b>
Full Priced Meal	\$0.23	\$0.23
Reduced Priced Meal	1.17	1.86
Free Meal	\$1.47	\$2.26

The Academy served 85,529 free breakfasts, 4,195 reduced priced breakfasts and 22 full priced breakfasts for a total of 89,746 breakfasts per the site claim report submitted to ODE and was reimbursed by ODE accordingly based upon the above mentioned rates. The Academy collected cash locally from the students for each full and reduced priced breakfast sold. The total amount of cash collected by the Academy from its students was \$2 more than what should have been collected based on the number of reduced and full priced breakfasts served.

Comparison of breakfast meal servings reported by the Academy to actual number of breakfast and lunch meals bought from Dayton Public Schools (which provided all meals) indicated that the Academy reported serving more breakfast meals than they actually purchased. The Academy reported serving 89,746 breakfasts compared to 69,514 breakfasts purchased from Dayton Public Schools. Therefore, the Academy overstated breakfast servings by 20,232.



**FINDING 2005-001  
 (Continued)**

Based on rate of \$1.47 reimbursed by the ODE for each free breakfast served, in accordance with the above facts, total federal questioned cost for reporting more breakfasts served than actually bought is \$29,741.04. The free breakfast rate was used for calculating the questioned cost amount as the Academy accounted for each reduced and full priced breakfast served through cash collected from its students locally. As noted above, the Academy collected more cash than it should have based on number of full priced and reduced breakfasts served.

The Academy should implement procedures to verify that accurate meal counts are submitted for reimbursement, including comparison to the meals purchased from its supplier prior to submission for reimbursement to prevent over/under stating the actual meals served. Failure to do so can result in further federal questioned costs and loss of further grant funding from the awarding agency.

**2. Lunches Served**

<b>Finding Number</b>	2005 – 002
<b>CFDA Title and Number</b>	National School Lunch Program, CFDA # 10.555
<b>Federal Award Number / Year</b>	LL-P4-04, LL-P4-05
<b>Federal Agency</b>	United States Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**7 CFR sections 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 the 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 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 lunches served per Site Claim Form submitted to ODE and Calculation for State Report that was prepared by the Academy and submitted to the Management Company:

- 359 for the month of September
- 83 for the month of November
- 125 for the month of December
- 144 for the month of April
- 294 for the month of May

In all these instances the number of lunches served per Calculation for the State Report prepared by the Academy for the Management Company was more than Site Claim Form submitted to the ODE for reimbursement.

**FINDING 2005-002  
(Continued)**

Additionally the following variances were noted between amount collected for full pay and reduced lunches per Site Claim Form submitted to the ODE and Treasurer's receipts:

\$29.40 for the month of October. The amount on Treasurer's receipts was less than the report to ODE.  
\$18.00 for the month of December. The amount on Treasurer's receipt was more than the report to ODE.

A variance of \$118.30 collected for the meals served was noted between Calculation for State Report and recalculated amounts by audit for the year. The recalculated amount was more than the amount reported by the Academy.

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



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**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  
MARCH 30, 2006**