MIAMI VALLEY ACADEMIES
(Formerly Moraine Community School)

MONTGOMERY COUNTY, OHIO

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants

THE SEAL OF THE AUDITOR OF STATE OF OHIO

Mary Taylor, CPA
Auditor of State

Board of Trustees
Miami Valley Academies
5656 Springboro Pike
Moraine, Ohio 45449

We have reviewed the *Report of Independent Accountants* of the Miami Valley Academies, Montgomery County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Miami Valley Academies is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 25, 2008

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

This Page is Intentionally Left Blank.

MIAMI VALLEY ACADEMIES
MONTGOMERY COUNTY
For the Years Ending June 30, 2007

TABLE OF CONTENTS

This Page is Intentionally Left Blank.

Charles E. Harris & Associates, Inc.
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste1242
Cleveland OH 44113-1306
Phone - (216) 575-1630
Fax - (216) 436-2411

REPORT OF INDEPENDENT ACCOUNTANTS

Miami Valley Academies
Montgomery County
5656 Springboro Pike
Moraine, Ohio 45449

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Miami Valley Academies (the School) 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 School'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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the School 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.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2007 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
December 7, 2007

The discussion and analysis of Miami Valley Academies' (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. 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 statement and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be present and is presented in the MD&A.

Financial Highlights

Key financial highlights for the fiscal year 2007 are as follows:

- Total net assets of the Academy remained constant, excluding depreciation expense in fiscal year. In fiscal year 2007, the Academy reported a decrease in net assets totaling $121,510.

- Total assets decreased $147,515, which represents a 52.0 percent decrease from the prior year due to the decrease in net capital assets which is attributable to recording current year depreciation and a reduction in intergovernmental receivable at year end.

- Overall, the Academy's total revenue was $116,775 less than the total revenue received in the prior year while expenses increased by $45,024 compared with the prior year expenses. The increase in operating expenses was primarily due to an increase in salaries and fringe benefits during fiscal year 2007 compared to fiscal year 2006.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statement. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Statement of Net Assets

The statement of Net Assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic 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.

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the Academy's net assets for fiscal year 2007 compared with fiscal year 2006.

(Table 1)
Net Assets

	2007	2006
Assets		
Current and other assets	$27,280	$54,873
Capital Assets, Net	108,794	228,716
Total Assets	136,074	283,589
Liabilities		
Current Liabilities	194,125	177,542
Non-Current Liabilities	112,360	154,948
Total Liabilities	306,485	332,490
Net Assets		
Invested in Capital Assets	(48,072)	31,849
Restricted	27,271	38,220
Unrestricted	(149,610)	(118,970)
Total Net Assets	$(170,411)	$(48,901)

The Academy's total net assets decreased by $121,510 during fiscal year 2007. The decrease resulted in the recognition of depreciation on the Academy's capital assets.

As noted in Table 1 above, total assets of the Academy decreased by $147,515 from those reported at June 30, 2006. The decrease resulted from the Academy not recognizing grants receivable for fiscal year 2006. Cash on hand at June 30, 2007 was $27,220 compared with $48,652 reported the prior year. The decrease in cash is attributable to reduction in operating revenues for fiscal year 2007.

Total liabilities of the Academy decreased $26,005 over those reported at June 30, 2006. The Academy paid down $40,001 on the note payable which resulted in the reduction in liabilities for the fiscal year.

Table 2 shows the changes in net assets for fiscal year 2007 and fiscal year 2006, as well as a listing of revenues and expenses.

TABLE 2
CHANGE IN NET ASSETS

	2007	2006
Operating Revenues:		
Foundation payments	$1,164,418	$1,155,731
Other operating revenues	9,859	52,158
Non Operating Revenues		
State and federal grants	155,026	234,142
Gifts and donations	0	4,047
Total Revenue	1,329,303	1,446,078
Operating Expenses:		
Salaries	673,895	603,778
Fringe Benefits	135,580	117,106
Management and Fiscal Services	175,795	90,780
Building rental	158,083	117,898
Other purchased services	54,097	278,245
Materials and supplies	74,024	54,981
Depreciation	121,554	128,985
Other expenses	42,404	899
Non Operating Expenses:		
Interest and fiscal charges	15,381	13,117
Total Expenses	1,450,813	1,405,789
Changes in net assets	(121,510)	40,289
Net assets, beginning of year	(48,901)	(89,190)
Net assets, end of year	$(170,411)	$(48,901)

Total revenue for the Academy decreased $116,775 in fiscal year 2007 compared with fiscal year 2006. Decreases in the number of students enrolled in the Academy was not enough to benefit the Academy from a slight increase in the per-pupil funding amount. State and Federal grant programs were significantly less than the previous year as the Academy qualified for additional grants in 2006.

Total expenses of the Academy reported the fiscal year were $45,024 more than those reported for the previous fiscal year. The increases in payroll and related benefits account for the majority of the increases in expenses. Payroll and related benefit costs increased by $88,591 over fiscal year 2006 as the cost associated with benefits rose and the additional instructional staff that was added.

Capital Assets

At June 30, 2007, the capital assets of the Academy consisted of $763,405 of equipment offset by $654,611 in accumulated depreciation resulted in net capital assets of $108,794. The $119,922 decrease in total net capital assets from the prior year is due to current year depreciation of $121,554 combined with $1,632 of equipment acquired during fiscal year 2007.

See Note 4 of the notes to the basic financial statements for additional information on the Academy's capital assets.

Debt

At June 30, 2007 the debt obligations of the Academy consisted of a note payable of $156,866, of which $44,506 is due within the next year. See Note 5 to the basic financial statement for additional details.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Miami Valley Academy, Inc. and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests fro additional financial information should be directed to: Miami Valley Academies, 5656 Springboro Pike, Moraine, OH 45449.

MIAMI VALLEY ACADEMIES
Statement of Net Assets

As of June 30, 2007

ASSETS:		
Current Assets:		
Cash	$	27,220
Accounts receivable		60
Total current assets		27,280
Noncurrent Assets:		
Capital assets, net depreciation		108,794
Total noncurrent assets		108,794
Total Assets		136,074
LIABILITIES:		
Current Liabilities:		
Accounts payable		53,243
Accrued wages & benefits payable		81,393
Intergovernmental payable		14,983
Notes payable, Due within one year		44,506
Total current liabilities		194,125
Noncurrent Liabilities:		
Notes Payable, Due in more than one year		112,360
Total Liabilities:		306,485
NET ASSETS:		
Invested in capital assets, net of related debt		(48,072)
Restricted		27,271
Unrestricted		(149,610)
Total net assets	$	(170,411)

See accompanying notes to the basic financial statements

MIAMI VALLEY ACADEMIES
Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007

OPERATING REVENUES:		
State Foundation	$	1,145,538
Poverty Based Assistance		18,880
Tuition and Fees		3,964
Other Operating Revenues		5,895
Total operating revenues		1,174,277
Operating Expenses:		
Salaries & Wages		673,895
Fringe Benefits		135,580
Purchased Services:		
Contract Management and Fiscal Services		175,795
Property Services		158,083
Other		54,097
Materials and Supplies		74,024
Depreciation		121,554
Other Expenses		42,404
Total operating expenses		1,435,432
Operating Loss		(261,155)
Nonoperating revenues (expenses):		
Federal Grants		135,626
State Grants		19,400
Interest and Fiscal Charges		(15,381)
Total nonoperating revenues (expenses)		139,645
Change in net assets		(121,510)
Net assets, beginning of year		(48,901)
Net assets, end of year	$	(170,411)

See accompanying notes to the basic financial statements

MIAMI VALLEY ACADEMIES
Statement of Cash Flows

Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from State of Ohio - Foundation	$	1,145,538
Cash received from State of Ohio - DPIA		18,880
Cash received from customers		3,964
Cash received from other operating revenues		5,835
Cash payments for personal services		(779,606)
Cash payments for contract services		(471,651)
Cash payments for supplies and materials		(42,404)
Net cash used for operating activities		(119,444)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from state and federal grants		115,026
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets		(1,632)
Principal paid on debt obligations		(40,001)
Interest paid on debt obligations		(15,381)
Net cash used by capital and related financing services		(57,014)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(21,432)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		48,652
CASH AND CASH EQUIVALENTS, END OF YEAR	$	27,220
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$	(261,155)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		121,554
Changes in assets and liabilities:		
Accounts receivable		(60)
Prepaid items		6,221
Accounts payable		(12,740)
Accrued wages and benefits		23,777
Intergovernmental payable		2,959
Net cash used for operating activities	$	(119,444)

See accompanying notes to the basic financial statements

1. Description of the Academy and Reporting Entity:

Miami Valley Academies (the "Academy") is a state nonprofit corporation established pursuant to Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The Academy, which is part of State education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2001 through June 1, 2005 after which the Thomas B. Fordham Foundation sponsored the Academy through May 2006. From May 2006 to the present, Educational Resource Consultants of Ohio has sponsored the Academy.

The Academy operates under a self-appointing five-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility to provide educational services to an enrollment of 188 students.

2. Summary of Significant Accounting Policies:

The financial statement 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 (FASB) statements and interpretations on or before November 30, 1989, provided that they do not conflict with or contradict GASB pronouncements; however the Academy has elected not to follow any FASB statements or interpretations after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of presentation

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

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

C. Budgetary process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with the sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract, however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

The Academy's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The Academy Principal and Treasurer are responsible for ensuring that purchases are made within these limits. However, any variances from the budgetary amounts are presented to the Board for subsequent approval.

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the cash is segregated into various funds.

E. 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 these estimates.

F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of $500. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of five to ten years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated over the life of the lease agreement of six years.

G. Intergovernmental revenues

The Academy currently participates in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and State educational grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

H. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly to the Academy's primary mission. For the Academy, operating revenues include foundation payments received from the State of Ohio and certain charges to students recorded as tuition and fees. Operating expenses are necessary costs incurred to support the Academy's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various state and federal grants and interest expense comprise the non-operating revenues and expenses of the Academy.

I. Accrued liabilities payable

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2007, including:

Wages Payable – salary payments made after year-end that were for serviced rendered in rendered in fiscal year 2007. Teaching personnel are paid in 26 equal installments, ending with the last pay period in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2007 for all salary payments made to teaching personnel during the months of July and August 2007.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($11,175), associated with services rendered during fiscal year 2007, but were not paid until the subsequent fiscal year is the major expense in this category.

J. Federal tax exemption status

The Academy is a non-profit organization that has been determined by the internal Revenue Service to be exempt from federal income taxes a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use 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.

3. Deposits and Investments:

The Academy does not have a policy addressing custodial credit risk for its deposits. At June 30, 2007, the carrying amount of the Academy's deposits was $27,220 and the bank balance was $44,847, the entire balance of which was covered by federal depository insurance.

4. Capital Assets:

A summary of the Academy's capital assets at June 30, 2007, follows:

	Beginning Balance	Additions	Deletions	Ending Balances
Capital assets being depreciated:				
Leasehold Improvements	$557,579	$0	$0	$557,579
Equipment	204,194	1,632	0	205,826
Total Capital Assets	761,773	1,632	0	763,405
Less: accumulated depreciation on:				
Leasehold Improvements	(371,719)	(92,930)	0	(464,649)
Equipment	(161,338)	(28,624)	0	(189,962)
Total Depreciation	(533,057)	(121,554)	0	(654,611)
Capital assets, net	$228,716	($119,922)	$0	$108,794

5. Debt Obligations:

The following is a summary of the note activity for the Academy for the year ended June 30, 2007:

	Balance 6/30/06	Additions	Deletions	Balances 6/30/07	Amount Due within One Year
Farmers and Merchants Bank, 6.0%	$196,867	-	$40,001	$156,866	$44,506

During fiscal year 2002, the Academy entered into a note agreement with Farmers and Merchants Bank in order to finance leasehold improvements. On September 4, 2004, the Academy refinanced the balance of the 2002 note payable to the Farmers and Merchants Bank to payoff the existing loan and finance the purchase and renovation of a new school building.

Future principal and interest payments associated with the long-term notes payable are as follows:

	Principal	**Interest**
2008	$44,506	$8,091
2009	47,253	5,345
2010	50,170	2,428
2011	14,937	130
Total	$156,866	$15,994

6. Risk Management:

Property and liability – The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the Academy contracted with the Cincinnati Insurance Company for business personal property and general liability insurance. Business personal property coverage carries $2,000,000 limit, and has a $1,000 deductible. General liability coverage is set at $1,000,000 in the aggregate with a $5,000 deductible. Errors and Omissions insurance is provided through National Union Fire Insurance Company with a $1,000,000 limit and $5,000 deductible.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

Employee insurance benefits – The Academy provides medical benefits through Anthem.

7. Defined Benefits Pension Plan:

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used t 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 Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were $2,878, $12,554, and $17,181, respectively; 77 percent has been contributed for 2007 and 100 percent 2006 and 2005, respectively.

B. State Teachers Retirement System

The School District 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.

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.

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, 2007, 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. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contributions 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were $90,868, $70,656, and $155,406, respectively; 89 percent has been contributed for 2007 and 100 percent for 2006 and 2005, respectively.

8. Postemployment Benefits

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

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $6,990 for the ended June 30, 2007.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was $3.5 billion at June 30, 2006 (the latest information available). For the year ended June 30, 2006, net health care cost paid by STRS was $282,743,000 and STRS had 119,184 eligible benefit recipients.

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

For this period, employer contributions to fund health care benefits were 3.32 percent 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 the year ended 2007, the minimum pay had been established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including surcharge, was $895 for the year ended June 30, 2007.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2006 were $158,751,207 and the target level was $238.1 million. At June 30, 2006, the Retirement System’s net assets available for payment of health care benefits as $295.6 million. The number of benefit recipients currently receiving health care benefits is approximately 59,492.

9. Restricted Net Assets:

At June 30, 2007 the Academy reported restricted net assets totaling $27,271. The nature of the net asset restrictions are as follows:

Title I Grant	$4,940
Title II-A Grant	5,566
Title II-D Grant	10,267
Other Educational Grants	6,498
Total	$27,271

10. Agreements with Keys to Improving Dayton Schools (KIDS) School Resource Center:

The Academy is a party to management agreement with Keys to Improving Dayton Schools (KIDS) School Resource Center, which is an education consulting and management company.

The Management Agreement's term coincides with the Academy's charter agreement and provides that KIDS School Resource Center will perform four functions reasonably required to manage the operation of the Academy. These three agreements are as follows:

1. CSADM/EMIS support for reporting to the Ohio Department of Education in the required electronic formats for information about the students attending the Academy. These services began on July 1, 2006 and ending on June 30, 2007. KIDS School Resource Center receives a monthly management fee of $1,500 for these Services.

2. Standard Treasurer services, including general ledger entries, basic record keeping required documents for state and federal governments, payroll processing, and basic accounting reports to Director and Board. This agreement is for an 18-month period starting July 1, 2005. KIDS School Resource Center receives a monthly management fee of $1,667 for these services.

3. Basic Financial Management Services, including all of the functions in Standard Treasurer Services Package plus SRC Financial Management Support Services, ongoing budgeting, accounting, purchasing, financial reporting, cash flow analysis, and resource call support. This agreement is for an 18-month period beginning July 1, 2005. KIDS School Resource Center receives a monthly management fee of $1,000 for these services.

11. Contingencies:

A. Grants

Amounts received from grantor agencies are subject to audit and adjustments by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not yet 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 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. The results of this review could result in state funding being adjusted. The Ohio Department of Education completed its review of the Academy's enrollment data for fiscal year 2007 which did not result in any adjustment to the funding received.

C. Litigation

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

The School is the defendant in a lawsuit filed by the Ohio Attorney General. The lawsuit is not seeking a monetary settlement, but seeking to close the School. The lawsuit is being handled by an Attorney provided by the School's Insurer. The School's Attorney believes the School will ultimately prevail or settle the lawsuit favorably.

12. Operating Leases:

The Academy leases its facilities from B.F. Hill Investments, Inc. under a six-year lease agreement beginning July 1, 2002 through June 30, 2008. Rent for fiscal year 2007 totaled $116,478. The terms of the lease are not expected to change significantly during fiscal year 2008.

13. Other Purchased Services:

During the fiscal year ended June 30, 2007, other purchased services rendered by various venders were as follows:

Professional and technical services	$146,677
Property Services	116,678
Meeting and travel	20,003
Communications	8,601
Utilities	42,330
Pupil transportation	1,254
Contracted Craft or Trade Service	40,894
Other purchased Services	11,538
	$387,975

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Charles E. Harris & Associates, Inc.
Certified Public Accountants
Office phone - (216) 575-1630
Fax - (216) 436-2411

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Miami Valley Academies
Montgomery County
5656 Springboro Pike
Moraine, Ohio 45449

To the Board of Trustees:

We have audited the financial statements of the Miami Valley Academies (the "School") as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued a report thereon dated December 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the finance committee, management and the Board of Trustees. It is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
December 7, 2007

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2006, reported no material citations or recommendations.

Mary Taylor, CPA
Auditor of State

MIAMI VALLEY ACADEMIES

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
FEBRUARY 7, 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