DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY

INITIAL AUDIT
REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Dayton Early College Academy
Montgomery County
300 College Park
Dayton, Ohio 45469-2930

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Dayton Early College Academy, Montgomery County (the Academy), as of and for the period ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dayton Early College Academy, Montgomery County, as of June 30, 2008, and the respective changes in financial position and its cash flows for the period 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 April 15, 2009, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 15, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD AUGUST 1, 2007 THOUGH JUNE 30, 2008
UNAUDITED

The management's discussion and analysis of the Dayton Early College Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period August 1, 2007 through June 30, 2008. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal period of financial reporting for the Academy, comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

Financial Highlights

Key financial highlights for the period ended June 30, 2008 are as follows:

- In total, net assets were $774,759 at June 30, 2008.
- The Academy had operating revenues of $1,462,526, operating expenses of $2,528,723, non-operating revenues of $1,404,280, and non-operating expenses of $1,242 for the period ended June 30, 2008. Total change in net assets for the period August 1, 2007 through June 30, 2008 was an increase of $336,841.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The statement of net assets and statement of revenues, expenses and changes in net assets provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy's Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2008?" The statement of net assets and statement of revenues, expenses and changes in net assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 11-21 of this report.

The table below provides a summary of the Academy's net assets at June 30, 2008.

Net Assets

	2008
Assets	
Current assets	$ 956,661
Capital assets, net	68,473
Total assets	1,025,134
Liabilities	
Current liabilities	226,560
Non-current liabilities	23,815
Total liabilities	250,375
Net Assets	
Invested in capital assets, net of related debt	38,988
Restricted	59,745
Unrestricted	676,026
Total net assets	$ 774,759

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Academy's net assets totaled $774,759.

At year-end, capital assets represented 6.68% of total assets. Capital assets consisted of computers and other equipment. Capital assets, net of related debt to acquire the assets at June 30, 2008, were $38,988. These capital assets are used to provide services to the students and are not available for future spending. Although the Academy's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The table below shows the changes in net assets for the period ended June 30, 2008.

Change in Net Assets

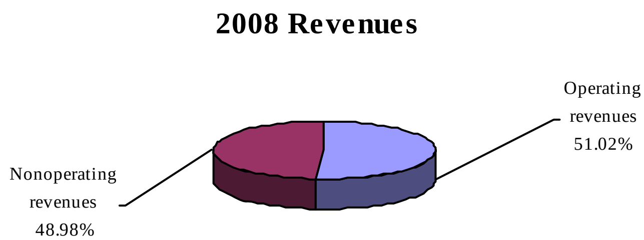
	2008
Operating Revenues:	
State foundation	$1,438,727
Charges for services	23,799
Total operating revenue	1,462,526
Operating Expenses:	
Personnel services	1,455,649
Purchased services	914,510
Materials and supplies	136,339
Other	18,175
Depreciation	4,050
Total operating expenses	2,528,723

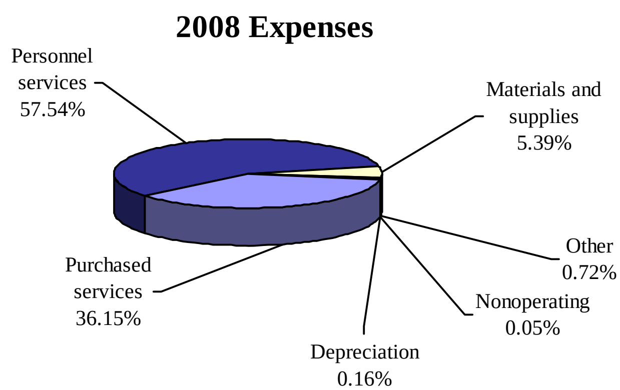
(Continued)

Change in Net Assets
(Continued)

Non-operating Revenues/(Expenses):	
Federal and State grants	1,011,074
Miscellaneous	375
Donations and contributions	383,399
Earnings on investments	9,432
Interest expense	(1,242)
Total non-operating revenues/(expenses)	1,403,038
Change in net assets	336,841
Net assets at beginning of period	437,918
Net assets at end of period	$ 774,759

The graphs below illustrate the revenues and expenses for the Academy during the period ended June 30, 2008.





Capital Assets

At June 30, 2008, the Academy had $68,473 invested in computers and equipment. See Note 6 to the basic financial statements for more detail on capital assets.

Debt Administration

At June 30, 2008, the Academy had $29,485 in capital leases outstanding. Of this total, $5,670 is due in one year and $23,815 is due in more than one year.

Current Financial Related Activities

The Academy is sponsored by Dayton City School District. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information contact Mr. Christopher H. Bell, Treasurer, Dayton Early College Academy, 300 College Park Dayton, OH 45469-2930.

DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:	
Current Assets:	
Cash and cash equivalents	$764,877
Cash with fiscal agent	184,471
Receivables:	
Accounts	3,036
Intergovernmental	3,791
Pre-payments	486
Total current assets	956,661
Non-Current Assets:	
Capital assets, net	68,473
Total assets	1,025,134
Liabilities:	
Current liabilities:	
Accounts payable	81,873
Accrued wages and benefits	89,898
Pension obligation payable	9,838
Intergovernmental payable	33,662
Compensated absences payable	5,619
Capital lease obligation	5,670
Total current liabilities	226,560
Non-current liabilities:	
Capital lease obligation	23,815
Total liabilities	250,375
Net Assets:	
Invested in capital assets, net of related debt	38,988
Restricted for:	
State funded programs	45,113
Federally funded programs	2,422
Other grant programs	12,210
Unrestricted	676,026
Total net assets	$774,759

See accompanying notes to the basic financial statements.

DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD AUGUST 1, 2007 THROUGH JUNE 30, 2008

Operating revenues:	
State foundation	$1,438,727
Charges for services	23,799
Total revenues	1,462,526
Operating expenses:	
Personnel services	1,455,649
Purchased services	914,510
Materials and supplies	136,339
Other operating expenses	18,175
Depreciation	4,050
Total expenses	2,528,723
Operating loss	(1,066,197)
Non-operating revenues/(expenses):	
State and federal grants	1,011,074
Miscellaneous	375
Donations and contributions	383,399
Interest expense	(1,242)
Earnings on investments	9,432
Total other non-operating revenues/(expenses)	1,403,038
Change in net assets	336,841
Net assets at beginning of period	437,918
Net assets at end of period	$774,759

See accompanying notes to the basic financial statements.

DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE PERIOD AUGUST 1, 2007 THROUGH JUNE 30, 2008

Cash flows from operating activities:	
Cash received from foundation	$1,438,936
Cash received from charges for services	20,763
Cash payments for personnel services	(1,343,437)
Cash payments for purchased services	(808,940)
Cash payments to suppliers for goods and supplies	(133,440)
Cash payments for other expenses	(18,661)
Net cash used in operating activities	(844,779)
Cash flows from noncapital financing activities:	
State and federal grants	1,007,283
Donations and contributions	383,399
Miscellaneous receipts	375
Net cash provided by non-capital financing activities	1,391,057
Cash flows from capital and related financing activities:	
Principal paid on capital lease	(2,670)
Interest paid on capital lease	(1,242)
Acquisition of capital assets	(40,368)
Net cash used in capital and related financing activities	(44,280)
Cash flows from investing activities:	
Interest received	9,432
Net cash provided by investing activities	9,432
Net increase in cash and cash equivalents	511,430
Cash and cash equivalents at beginning of period	437,918
Cash and cash equivalents at end of period	949,348
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	(1,066,197)
Adjustments:	
Depreciation	4,050
Changes in assets and liabilities:	
Increase in accounts receivable	(3,036)
Increase in prepayments	(486)
Increase in accounts payable	81,873
Increase in accrued wages and benefits	89,898
Increase in intergovernmental payable	33,662
Increase in compensated absences payable	5,619
Increase in pension obligation payable	9,838
Net cash used in operating activities	($844,779)

Non-cash transaction:
During fiscal year 2008, the Academy entered into a capital lease agreement for copiers in the amount of $32,155.

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE ACADEMY

Dayton Early College Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-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 mission of the Academy, one of the first institutions of its kind in the United States and the first early college high school in Ohio, is to maximize each student's unique potential through a personalized, accelerated academic program. The Academy addresses a critical need in urban public schools to help students, particularly those underrepresented in higher education, to explore their personal and intellectual potential, achieve academic success, and make a seamless transition from high school to college. The Academy was developed out of a partnership between the University of Dayton and the Dayton City School District. Fiscal year 2008 represents the first year of operation of the Academy as an independent charter school. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Dayton City School District (the "Sponsor") for a period of five years commencing July 1, 2007 and ending June 30, 2012. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy operates under a self-appointing eight member Governing Board (the "Board"). The Board is composed of a Chairman, Secretary, Parent Representative, the Academy's Principal, three Board members and the Academy's Treasurer. The Academy's Code of Regulations specify that vacancies that arise on the Board are 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 Board controls the Academy's one instructional/support facility staffed by 20 certified full-time teaching personnel who provide services to 237 students. The Academy also has contracted with Keys to Improving Dayton Schools, Inc. ("K.I.D.S") to provide fiscal services (See Note 15).

The University of Dayton provides educational assistance/opportunities for the students and professional development for the staff of the Academy. The University of Dayton also provides the Academy with facilities (See Note 9) and fiscal support for donations and grants. These monies are held in separate accounts by the University of Dayton and are presented as "cash with fiscal agent" on the statement of net assets (See Note 3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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, provided they do not conflict with or contradict GASB pronouncements.

The more significant of the Academy's accounting policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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. Equity (i.e., net total assets) consists of the retained earnings. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

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

The Academy's Board adopts a formal budget at the beginning of the Academy 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 Business Manager are responsible for ensuring that purchases are made within these limits.

D. Cash and Investments

All cash received by the Academy is maintained at a central bank. The Academy also has cash held by the University of Dayton which is reported as "cash with fiscal agent". For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

During the period August 1, 2007 through June 30, 2008, part of the cash received by the Academy was maintained in demand deposit account.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals 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 $2,500. The Academy does not have any infrastructure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 equipment is computed using the straight line method over estimated useful lives of five to twenty years.

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. For the Academy, these revenues are payments from the State foundation program and food service charges. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

G. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program through the Ohio Department of Education, the Federal IDEA Part B grant, the Federal Title I grant, the State Disadvantaged Pupil Impact Aid (DPIA) program, the EMIS grant the Early College Academy Grant and the Federal School Lunch Program. Revenues from these programs are recognized in the accounting period in which they are earned, essentially the same as the fiscal year. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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. Federal and State grant revenue for the fiscal year 2008 was $1,011,074.

H. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items on the statement of net assets. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

I. Compensated Absences

The Academy accrues a liability for unused vacation leave.

J. Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets have been restricted for State and federally funded programs.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. DEPOSITS AND INVESTMENTS

A. Cash with Fiscal Agent

The Academy had $184,471 in cash held by the University of Dayton at June 30, 2008. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. This amount is not included in the "deposits" reported below.

B. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all Academy deposits was $(54,094), exclusive of the $818,971 repurchase agreement included in investments below. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, the Academy's entire bank balance of $38,470 was covered by Federal Deposit Insurance Corporation.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

C. Investments

As of June 30, 2008, the Academy had the following investments and maturities:

3. DEPOSITS AND INVESTMENTS (Continued)

		Investment Maturities
Investment type	**Fair Value**	**6 months or less**
Repurchase Agreement	$818,971	$818,971

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Academy's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The federal agency securities that underlie the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Academy's $818,971 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the Academy. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The Academy places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Academy at June 30, 2008:

Investment type	Fair Value	% of Total
Repurchase Agreement	$818,971	100.00

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

Cash and investments per note	
Carrying amount of deposits	($ 54,094)
Investments	818,971
Cash with fiscal agent	184,471
Total	$949,348
Cash and investments per statement of net assets	
Business-type activities	$949,348

4. RECEIVABLES

Receivables at June 30, 2008 consisted of accounts (billings for user charged services) and intergovernmental grants and entitlements. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net assets follows:

Accounts	$3,036
Intergovernmental	3,791
Total	$6,827

5. LONG-TERM OBLIGATIONS

Changes in the Academy's long-term obligations during fiscal year 2008 were as follows:

	Balance at 8/1/2007	Additions	Reductions	Balance at 06/30/08	Due Within One Year
Capital lease obligation payable		$32,155	($2,670)	$29,485	$ 5,670
Compensated absences		5,619		5,619	5,619
Total governmental activities long-term liabilities	$0	$37,774	($2,670)	$35,104	$11,289

Capital Lease Obligation: See Note 8 for details.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which primarily consist of the general fund.

6. CAPITAL ASSETS AND DEPRECIATION

A summary of the Academy's capital assets at June 30, 2008, follows:

	Balance at 8/1/2007	Additions	Deductions	Balance 6/30/2008
Capital assets, being depreciated				
Equipment		$72,523		$72,523
Total capital assets, being depreciated		72,523		72,523
Less: Accumulated Depreciation				
Equipment		(4,050)		(4,050)
Total accumulated depreciation		(4,050)		(4,050)
Net Capital Assets	$0	$68,473	$0	$68,473

7. PURCHASED SERVICES

Purchased services include the following:

Professional and technical services	$370,742
Property services	426,288
Travel mileage/meeting expense	4,281
Communications	25,928
Contracted craft or trade	31,670
Pupil transportation	35,642
Miscellaneous	19,959
Total purchased services	$914,510

8. CAPITAL LEASES - LESSEE DISCLOSURE

During the period August 1, 2007 through June 30, 2008, the Academy entered into capitalized leases for copiers. All leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets acquired by lease have been originally capitalized in the amount of $32,155, which represents the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 was $3,216, leaving a current book value of $28,939. Principal and interest payments in the 2008 fiscal year totaled $2,670 and $1,242, respectively.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008:

Fiscal Year Ending June 30	Amount
2009	$ 7,824
2010	7,824
2011	7,824
2012	7,824
2013	3,912
Total future minimum lease payments	35,208
Less: amount representing interest	(5,723)
Present value of future minimum lease payments	$29,485

9. OPERATING LEASES

The Academy entered into a lease for the period August 1, 2007 through June 30, 2008 with the University of Dayton to lease the third floor of the building located at 1529 Brown Street to house the Academy. The cost of the lease for fiscal year 2008 was $276,000 payable in 4 quarterly payments.

10. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the Academy contracted with Indiana Insurance for general, automobile and excess/umbrella liability insurance. General liability carries a limit of $1,000,000 for each occurrence and $2,000,000 aggregate. Automobile carries a $1,000,000 combined single limit and excess/umbrella liability carries a limit of $3,000,000 for each occurrence.

B. Workers' Compensation

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

11. OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, Life and Vision Benefits

The Academy has contracted with United Healthcare Insurance Company to provided medical, dental, life and vision benefits to its employees.

12. PENSION PLANS

State Teachers Retirement System of Ohio

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

12. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, 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 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 year ended June 30, 2008 was $126,966; 100 percent has been contributed for fiscal year 2008. Contributions to the DC and Combined Plans for fiscal year 2008 were $8,219 made by the Academy and $7,827 made by the plan members.

13. POST-EMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contribution for health care for the fiscal year ended June 30, 2008 was $9,767; 100 percent has been contributed for fiscal year 2008.

14. CONTINGENCIES

A. Grants

The Academy received financial assistance from State agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008.

14. CONTINGENCIES (Continued)

B. Litigation

The Academy is not involved in litigation that, in the opinion of management, would have material effect on the financial statements.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As a result of the review after fiscal year end, the Academy owed the Ohio Department of Education $209. This amount is reflected as an intergovernmental payable on the basic financial statements.

15. SERVICE AGREEMENTS

A. Keys to Improving Dayton Schools, Inc. ("K.I.D.S")

The Academy entered into a one-year agreement on July 1, 2007, with Keys to Improving Dayton Schools, Inc. ("K.I.D.S") to provide the following services:

1. **Standard Treasurer Services** including general ledger entries, basic record keeping, required documents for State and federal governments, basic accounting reports to the Director and the Board, ongoing budgeting, cash flow analysis and resource call support. For these services, the Academy will pay a monthly service fee of $1,500.

2. **Basic Financial Management Services** including all the functions in Standard Treasurer Services Package plus financial management support services, oversight and management of facilities, equipment, utilities, technology, human resources, insurance, central office, State and federal reporting, transportation, and non-educational aspects of the business operation of the Academy. For these services, the Academy will pay a monthly service fee of $2,000.

3. **Basic CSADM/EMIS and Assistant Treasurer Services** including setup, maintenance, and input of student and staff data directly into the EMIS subsystem, setup/maintenance of student and staff data and payroll processing services. For these services the Academy will pay a monthly service fee of $1,250.

During the period August 1, 2007 through June 30, 2008, the Academy paid K.I.D.S. $51,625 in service fees.

B. Dayton City School District

The School entered into a five-year contract effective on July 1, 2007 and continuing through June 30, 2012 with the Dayton City School District (the "Sponsor") for its establishment. The Sponsor shall carry out the responsibilities established by law, including:

15. SERVICE AGREEMENTS (Continued)

- Monitor the Academy's compliance with applicable laws and the terms of the contract;
- Monitor and evaluate the academic, fiscal performance and the organization and operation of the Academy.

The Academy paid the Sponsor a 1.75% sponsorship fee, based on State foundation revenue. An intergovernmental payable in the amount of $25,971 has been recorded in the basic financial statements to account for unpaid sponsorship fees at June 30, 2008.

16. START-UP PERIOD

The Academy began its operations on August 1, 2007. Prior to the period beginning August 1, 2007, the Academy received $437,918 in State grants, contributions and donations which resulted in beginning net assets of $437,918.

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Mary Taylor, CPA
Auditor of State

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

Dayton Early College Academy
Montgomery County
300 College Park
Dayton, Ohio 45469-2930

To the Board of Trustees:

We have audited the financial statements of the business-type activities of Dayton Early College Academy, Montgomery County, (the Academy) as of and for the period ended June 30, 2008, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

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

We consider findings 2008-001 and 2008-002 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

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Internal Control Over Financial Reporting
(Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings number 2008-001 and 2008-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated April 15, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated April 15, 2009.

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

We intend this report solely for the information and use of the audit committee, management, Board of Trustees, and Academy's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 15, 2009

SCHEDULE OF FINDINGS
JUNE 30, 2008

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

FINDING NUMBER 2008-001

Material Weakness

Agreement with the University of Dayton

The Academy had an agreement with the University of Dayton (UD) to serve as the "Operator" of the School. As part of the relationship, UD had four separate accounts/funds on its books dedicated to receiving and/or expending funds on behalf of the Academy or the Academy's students. The "Operator" agreement, though, did not provide any guidance as to the agreed upon purposes of the UD accounts/funds. While the Academy was aware that such activity was occurring at UD, the financial activity in these accounts/funds was not originally recorded on the Academy's year-end financial statements. Once notified during the audit that this was required to be included, the Academy brought the financial activity onto the financial statements, however, such was materially misstated. Revenues were overstated by approximately $344,000, expenditures were overstated by approximately $356,000, and net assets were understated by approximately $12,000. In addition, Net Assets Restricted for Endowments was overstated by approximately $172,000 and Net Assets Restricted for Other Grant Programs was understated by approximately $12,000.

Lack of a written agreement regarding the handling of funds/accounts on the UD's books that are on behalf of the Academy could lead to disagreements and confusion as to how these accounts are to be properly handled. Not properly recording all on-behalf financial activity on the year-end financial statements resulted in the above mentioned misstatements to the financial statements.

The "Operator" agreement between the Academy and UD should be modified to provide guidance as to the proper purposes and handling of those accounts/funds that are on UD's books but are for the Academy's benefit.

Officials' Response: *The University of Dayton (UD) founded the Dayton Early College Academy (DECA) in 2003 in partnership with Dayton Public Schools (DPS) as the first early college high school in Ohio. Fiscal Year 2008 was the first year of independent operation of DECA as a charter school. Previously, DECA had been a part of the DPS. As a part of DPS, DECA had never been asked to report the financial activity that occurred at UD that benefited DECA. Therefore, DECA did not report the activity in fiscal year 2008, until the Auditor of State asked for the information, which DECA provided. In the future, DECA will include the financial activity at UD in DECA's year-end financial statements. The financial activity that was misstated was a grant that DECA had originally accounted for, but that was duplicated when the UD financial activity was reported. The error was brought to our attention and will be corrected going forward.*

FINDING NUMBER 2008-002

Material Weakness

Donations Handled by the University of Dayton

The Academy had an agreement with the University of Dayton (UD) to serve as the "Operator" of the School. As part of the relationship, UD had four separate accounts/funds on their books dedicated to receiving and/or expending funds on behalf of the Academy or the Academy's students. Two of such accounts/funds contained activity involving very large private donation collections totaling $123,950, and the expenditure of such donation funds. After viewing copies of these donation checks, it was discovered that the checks were actually issued in the name of the Academy. Despite being in the name of the Academy, the checks were processed, deposited, and expended by UD for the benefit of the Academy or its students. Such donations were not noted in the minutes as approved by the Board.

Depositing donation checks issued to the Academy into UD's bank account could result in the funds being spent in a way that is not in agreement with the donor or the Academy's wishes.

Checks issued in the Academy's name should be deposited to the Academy's bank account. No other entity, including UD, should deposit checks into its bank account that are issued in the name of the Academy. The Academy should develop a policy and implement procedures to require that such donation funds are approved by the Board, documented in the minutes, and spent in accordance with the stipulations as described by the donor. Duplicate receipts should also be issued for all donations received to provide for completeness over such revenue. Finally, the Academy should implement a system of controls over funds accounted for on UD's books.

Officials' Response: *The University of Dayton (UD) founded the Dayton Early College Academy (DECA) in 2003 in partnership with Dayton Public Schools (DPS) as the first early college high school in Ohio. Fiscal Year 2008 was the first year of independent operation of DECA as a charter school. Previously, DECA had been a part of the DPS. As a part of DPS, DECA had always deposited donation checks from donors into UD accounts. Although the funds are deposited at UD, DECA still monitors how the donation monies are used.*

DAYTON EARLY COLLEGE 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
MAY 12, 2009