DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of the Dayton Academy School, Montgomery County, (the School), as of and for the year ended June 30, 2004, 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2004, 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.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery

Betty Montgomery
Auditor of State

February 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Dayton Academy School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new 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 Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

In total, net assets increased $240,232, which represents a 43.7 percent increase from 2003. This increase was due to an increase within the State Foundation Program which was attributed to an increase in the per pupil formula and a slight increase in ADM.

Total assets increased $811,729, which represents a 99.9 percent increase from 2003. This was primarily due to an increase in State Foundation Subsidy, State and Federal Grants, and larger fiscal year-end cash balances.

Liabilities increased $571,497, which represents a 217.6 percent increase from 2003. This was due to an increase in intergovernmental payables for services provided by Edison Schools Inc.

Using this Financial Report

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

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" 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.

Table 1 provides a summary of the School's net assets for fiscal year 2004 and fiscal year 2003:

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	$1,282,468	$463,761
Depreciable Capital Assets, Net	341,922	348,900
Total Assets	1,624,390	812,661
Liabilities		
Current Liabilities	834,181	262,684
Net Assets		
Invested in Capital Assets	341,922	348,900
Unrestricted	448,287	201,077
Total Net Assets	$790,209	$549,977

Total assets increased $811,729. This increase was primarily due to an increase in student enrollment and federal and state subsidies. Equity in pooled cash and cash equivalents increased by $469,454 from 2003. Intergovernmental Receivables increased by $535,258. This increase was due to the timing of the receipt of some grants. Capital Assets, net of depreciation decreased by $6,978.

Table 2 shows the changes in net assets for fiscal year 2003 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Sales	$42,395	$4,636
State Foundation	5,806,314	5,334,215
Disadvantaged Pupil Impact Aid	883,469	716,655
Miscellaneous	18,861	16,421
Non-Operating Revenues:		
Federal and State Grants	1,788,158	1,103,315
Interest	6,444	19,033
Total Revenues	8,545,641	7,194,275
Operating Expenses		
Fringe Benefits	433,691	446,769
Purchased Services	7,186,693	5,730,388
Rent	676,149	671,903
Materials and Supplies	110	18,322
Depreciation	6,978	0
Other Expenses	1,788	26,482
Total Expenses	8,305,409	6,893,864
Increase in Net Assets	240,232	300,411
Net Assets Beginning of Year	549,977	249,566
Net Assets End of Year	$790,209	$549,977

Net assets increased from 2003 to 2004, by $240,232. There was an increase in revenues of $1,351,366 and an increase in expenses of $1,411,545 from 2003. Of the increase in revenues, the foundation payments increased by $472,099 and the Disadvantaged Pupil Impact Aid increased by $166,814. Community Schools receive no support from tax revenues.

Salaries for the School are generated by a management company. STRS and SERS are withheld from the State Foundation monthly payments. The expense for fringe benefits decreased by $13,078. This was primarily due to a credit payable to the School from SERS. Depreciation expense increased $6,978 from fiscal year 2003. According to the School's capital asset policy, no depreciation is taken in the year of acquisition, therefore, no depreciation was taken in fiscal year 2003.

Capital Assets

At the end of fiscal year 2004 the School had $341,922, invested in buildings, which represented a decrease of $6,978 from 2003, which was the depreciation expense for fiscal year 2004. Table 3 shows fiscal year 2004 and fiscal year 2003:

(Table 3)
Capital Assets at June 30, 2004
(Net of Depreciation)

	2004	2003
Buildings	$341,922	$348,900

For more information on capital assets see Note 6 to the basic financial statements.

Debt Administration

The School does not have any outstanding debt at June 30, 2004.

Current Financial Issues

In the prior years, the School had experienced adjustments to the State Foundation Payments. These adjustments were the result of incorrect student reporting for the previous School Year. This results in adjustments being made in the current year. Considerable effort has been made to improve the reporting procedures. The School has been successful in their endeavor and does not expect a significant adjustment for fiscal year 2004. Also, federal monies are planned to be used within the allocation year. These steps will allow historical data to be built and used as management tools.

Contacting the School's Financial Management

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

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

ASSETS	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	$709,156
Intergovernmental Receivables	573,312
Total Current Assets	1,282,468
Non-Current Assets	
Capital Assets:	
Depreciable Capital Assets, Net	341,922
Total Assets	$1,624,390
LIABILITIES	
Current Liabilities	
Accounts Payable	$3,787
Accrued Wages and Benefits	24,192
Edison Payable	806,202
Total Liabilities	834,181
NET ASSETS	
Invested in Capital Assets	341,922
Unrestricted	448,287
Total Net Assets	$790,209

The accompanying notes to the basic financial statements are an integral part of this statement.

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Operating Revenues	
Sales	$42,395
State Foundation	5,806,314
Disadvantaged Pupil Impact Aid	883,469
Miscellaneous	18,861
Total Operating Revenues	6,751,039
Operating Expenses	
Fringe Benefits	433,691
Purchased Services	7,186,693
Rent	676,149
Materials and Supplies	110
Depreciation	6,978
Other	1,788
Total Operating Expenses	8,305,409
Operating Loss	(1,554,370)
Non-Operating Revenues	
Federal and State Grants	1,788,158
Interest	6,444
Total Non-Operating Revenues	1,794,602
Change in Net Assets	240,232
Net Assets Beginning of Year - Restated Note 3	549,977
Net Assets End of Year	$790,209

The accompanying notes to the basic financial statements are an integral part of this statement.

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Sales	$42,395
Cash Received from State of Ohio	6,537,302
Cash Received from Miscellaneous Sources	18,981
Cash Payments for Fringe Benefits	(433,189)
Cash Payments to Suppliers for Goods and Services	(7,106,072)
Cash Payments to Others	(1,788)
Net Cash Used for Operating Activities	(942,371)
Cash Flows from Noncapital Financing Activities	
Cash Received from Federal and State Grants	1,405,381
Cash Flows from Investing Activities	
Cash Received from Interest	6,444
Net Increase in Cash and Cash Equivalents	469,454
Cash and Cash Equivalents at Beginning of Year	239,702
Cash and Cash Equivalents at End of Year	$709,156
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	($1,554,370)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	6,978
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	120
Increase in Intergovernmental Receivable	(152,481)
Decrease in Edison Receivable	185,885
Increase in Accounts Payable	3,673
Increase in Accrued Wages and Benefits	1,102
Increase in Edison Payable	806,202
Decrease in Intergovernmental Payable	(126,744)
Decrease in Pension Obligation Payable	(112,736)
Total Adjustments	611,999
Net Cash Used for Operating Activities	($942,371)

The accompanying notes to the basic financial statements are an integral part of this statement.

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

The creation of the School was initially proposed to the Ohio State Board of Education, the sponsor, by the Board of Trustees of Alliance Community Schools, Inc. (the Board) on November 9, 1998. The Ohio State Board of Education approved the proposal and entered into a contract with the Board, which provided for the commencement of School operations beginning the fiscal year 2000 academic year and shall terminate upon conclusion of the fiscal year 2004 school year.

The School operates under a seven member Board of Trustees. This Board exercises its authority by appointing a separate five member Board of Governance for the School. The Board of Trustees is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Governance controls the School's one instructional facility staffed by 61 teaching personnel who provide services to approximately 1,054 students. Furthermore, Dayton Academy School and Dayton View Academy School share the same Board. (See Note 10)

The primary government of the School consists of one fund, several departments, and the boards and committees that are not legally separate from the School. This includes general operations and student related activities of the School. Also the School is associated with the Metropolitan Dayton Education Computer Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 16)

Alliance Community Schools has several divisions. These divisions operate under the names of Dayton Academy and Dayton View Academy. The School also leases its facilities from a separately Incorporated Ohio Not-for-Profit entity Alliance Edison LLC (AE). (See Notes 10 and 11) Alliance Community Schools Inc. has contracted with Edison Schools, Inc. to act as a management company for both of the schools (See Note 15).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. 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 statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2004, investments were limited a repurchase agreement which is reported at cost.

E. Capital Assets

Capital assets utilized by the School are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

F. Compensated Absences

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

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets, invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The School has no debt.

H. Operating Revenues and Expenses

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

I. Estimates

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

J. Budgetary Process

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

3. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 34 creates new basic financial statements for reporting on the School's financial activities.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures that potentially could arise, in interpretation and practice.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity". The implementation of this new statement had no effect on the School District's financial statements for fiscal year 2004.

The School's only enterprise fund had retained earnings of $549,977 which were broken down into invested in capital assets, and unrestricted net assets in the amounts of $348,900 and $201,077, respectively.

4. DEPOSITS AND INVESTMENTS

Deposits: At fiscal year end, the carrying amount of the School's deposits was ($166,364), and the bank balance was $20,064. All of the bank balance was covered by federal depository insurance.

Investments: The School's investments are required to be categorized to give an indication of the level of risk assumed by the School at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School or its agent in the School's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School's name.

	Category 3	**Carrying Value**
Repurchase Agreement	$875,520	$875,520

The classification of cash in pooled cash, and cash equivalents on the balance sheet is based on criteria set forth in GASB Statement No. 9.

A reconciliation between the classifications of cash in pooled cash, and cash equivalents on the balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	**Investments**
GASB Statement No. 9	$709,156	$0
Investment:		
Repurchase Agreement	(875,520)	875,520
GASB Statement No. 3	($166,364)	$875,520

5. RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental (State Foundation and Federal and State grants) receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

DPIA	$152,481
Lunchroom Federal Subsidy	85,587
Title I	209,109
Title II-A	76,524
Title II-D	3,127
IDEA – B	40,646
Early Childhood	1,298
Drug Free School	3,160
Title V	1,380
Total Intergovernmental Receivable	$573,312

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance 6/30/03	Additions	Deductions	Balance 6/30/04
Capital Assets, Being Depreciated:				
Building	$348,900	$0	$0	$348,900
Less Accumulated Depreciation:				
Building	0	(6,978)	0	(6,978)
Governmental Activities Capital Assets, Net	$348,900	($6,978)	$0	$341,922

7. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended 2004, the School's management company, Edison Schools, Inc., carried comprehensive insurance on all of the schools they manage. This policy cannot be broken out on a per school basis, and therefore is presented on a cumulative basis. Edison Schools, Inc. contracted with Willis of Tennessee, Inc. for employee dishonesty (crime and fiduciary) bonds, business personal property, equipment hardware and software, general liability, and excess liability insurance.

Employee dishonesty crime coverage carries a $2,500 deductible and has a $1,000,000 limit. Employee dishonesty fiduciary liability also has a limit of $1,000,000, with no deductible. Computer equipment carries a $50,000 deductible and has a $963,050 limit. Business personal property has a limit of $705,859, with a $50,000 deductible. General liability coverage provides $1,000,000 per occurrence and $2,000,000 in the aggregate. In addition, the general liability provides $500,000 for fire damage for any one fire, and $5,000 for medical expenses for any one person. There have been no significant reductions in insurance coverage from last year. Settled claims have not exceeded insurance coverage for the past three years.

7. RISK MANAGEMENT (Continued)

B. Medical, Dental, and Vision Benefits

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

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were $56,889, $81,705, and $28,444, respectively; 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System of Ohio

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds 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, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School’s required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were $330,012, $348,100, and $198,319, respectively; 100 percent has been contributed for all three fiscal years. Contributions to the DC and Combined Plans for fiscal year 2004 were $7,426 made by the School and $9,746 made by the plan members.

9. POSTEMPLOYMENT BENEFITS

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

9. POSTEMPLOYMENT BENEFITS (Continued)

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $25,386 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was $3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were $268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at $25,400. For the School, the amount contributed to fund health care benefits during the 2004 fiscal year equaled $30,729.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were $223,443,805 and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

10. RELATED PARTY TRANSACTIONS

A. Alliance Edison, LLC (AE)

The School leases its facilities and land from Alliance Edison, LLC (AE), which is also created under Alliance Community Schools, Inc. The lease expense for the year ended June 30, 2004 was $92,766 for the land and $583,383 for the Facilities. (See note 11.)

B. Board of Governance

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

11. LEASES

The School subleases a building and 6.5588 acres together with the non-exclusive right to use and occupy some common areas through a related nonprofit organization, Alliance Edison, LLC (AE). (See note 10A.) AE leases the land from the Young Men's Christian Association (YMCA). The School agreed to pay AE, as rent for the land and the common areas, an amount equal to the land lease due by AE owed to the YMCA. Rent paid for the land for the year ended June 30, 2004 was $92,766.

The above mentioned lease also states the School must pay AE for rent of the building, an amount equal to the debt service relating to any financing obtained; plus loan closing cost, on going loan administration cost associated with any financing secured by the premises, including but not limited to, cost associated with satisfying the financial reporting and periodic appraisal requirements; plus out of pocket expenses incurred by AE; plus $5,000 per year. The School, with written notification, has an option to renew the lease for four additional terms of five years. Lease payments for the building for the year ended June 30, 2004 were $583,383.

12. STATE SCHOOL FUNDING DECISION

The suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on the Dayton Academy School is not presently determinable.

13. CONTINGENCIES

A. Grants

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

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to insure the schools are reporting accurate student enrollment data to the state, upon which State foundation funding is calculated. This review did not result in an adjustment to foundation revenue in the fiscal year 2004 financial statements.

14. PURCHASED SERVICES

For the fiscal year ended June 30 2004, purchased service expenses for services rendered by various vendors were as follows:

Management Company Fees	$7,104,739
Alliance Community Schools	81,954
Total	$7,186,693

15. AGREEMENT WITH EDISON SCHOOLS, INC.

On May 23, 2000, the School contracted with Edison Schools Inc, to provide educational programs that offer educational excellence and a laboratory for educational innovation based on Edison's unique school design, comprehensive educational programs, and management principles. The term of the contract is August 1, 1999 and ending on June 30, 2004. The contract shall be renewed for an additional five year term, up to a total of two additional five year terms and cannot extend beyond the term of the School's contract with the Ohio State Board of Education. Under the contract Edison is responsible and accountable to Alliance Community School's Inc. Board of Trustees for the administration, operation, and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. Significant provisions of the contract are as follows:

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit monthly to Edison all qualified gross revenue defined in the contract as "Appendix F" except for $81,954 and rent and common area rental. The following is a summary of current payment activity to Edison:

Amount due current fiscal year	$7,104,739
Amount remitted current fiscal year	(6,298,537)
Accrued Edison Fees	806,202

2. The School's Financial Responsibility

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

3. Edison Financial Responsibilities

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

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

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

4. Budget

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

B. Personnel

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

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

C. Agreement Termination

1. Termination by the School

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

2. Termination by Edison

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

16. JOINTLY GOVERNED ORGANIZATION

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

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School paid MDECA $3,228 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

17. SUBSEQUENT EVENTS

On July 1, 2004 the School renewed the contract with Edison School Inc. to continue acting as the management company. The term of the contract is July 1, 2004 through June 30, 2009.

On October 15, 2004 the School renewed the lease for land and facilities with Alliance Edison LLC for the period July 1, 2004 through June 30, 2009.

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
Nutrition Cluster:				
National School Breakfast Program	05-PU-03	10.553	$25,193	$25,193
	05-PU-04		58,819	58,819
Total National School Breakfast Program			84,012	84,012
National School Lunch Program	LL-P4-03	10.555	93,236	93,236
	LL-P4-04		176,348	176,348
Total National School Lunch Program			269,584	269,584
Total United States Department of Agriculture - Nutrition Cluster			353,596	353,596
UNITED STATES DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education				
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-03	84.010	19,849	19,849
	C1-S1-04		830,435	856,162
	C1-SK-04		9,000	9,000
Total ESEA Title I Grant			859,284	885,011
Special Education Cluster:				
Special Education Grants to States (IDEA part B)	6B-SF-04	84.027	73,953	114,598
Special Education Preschool Grant	PG-S1-03-P	84.173	706	706
	PG-S1-04		285	
Total Special Education Preschool Grant			991	706
Total Special Education Cluster			74,944	115,304
Drug Free Schools Grant	DR-S1-04	84.186	11,417	14,577
Innovative Educational Program Strategies	C2-S1-03	84.298	3,636	3,636
	C2-S1-04		7,193	8,031
Total Innovated Educational Program Strategies			10,829	11,667
Technology Literacy Challenge Fund Grant	TJ-S1-03	84.318	7,181	7,181
	TJ-S1-04		23,118	26,245
Total Technology Literacy Challenge Fund Grant			30,299	33,426
Title II-A Teacher Quality Enhancement	TR-S1-04	84.367	38,208	36,748
Total United States Department of Education			1,024,981	1,096,733
Total Federal Assistance			**$1,378,577**	**$1,450,329**

See accompanying notes to the Schedule of Federal Awards Expenditures

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Governing Board:

We have audited the financial statements of the Dayton Academy School, Montgomery County, (the School), as of and for the year ended June 30, 2004, which comprise the School's basic financial statements and have issued our report thereon dated February 9, 2005 wherein we noted the School implemented a new financial reporting model, as required by the provisions of Governmental Auditing Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments.* 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.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the School's management in a separate letter dated February 9, 2005.

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This report is intended solely for the information and use of the audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery
Auditor of State

February 9, 2005

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

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

To the Governing Board:

Compliance

We have audited the compliance of the Dayton Academy School, Montgomery County, (the School), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

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Internal Control Over Compliance
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the School in a separate letter February 9, 2005.

This report is intended for the information and use of the audit committee, management, Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

February 9, 2005

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material non-compliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	No
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	No
(d)(1)(vii)	**Major Programs (list):**	Grants to Local Educational Agencies (ESEA Title I): CFDA # 84.010
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

DAYTON ACADEMY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	Internal control procedures over payroll expenditures	Yes	

Auditor of State
Betty Montgomery

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DAYTON ACADEMY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 22, 2005