



**Auditor of State  
Betty Montgomery**



**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Balance Sheet – As of June 30, 2003.....	3
Combined Statement of Receipts, Expenses, and Changes in Retained Earnings - For the Year Ended June 30, 2003.....	4
Combined Statement of Cash Flows – For the Year Ended June 30, 2003.....	5
Notes to the Financial Statements .....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	15

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

North Dayton School of Discovery Community School  
Montgomery County  
3901 Turner Road  
Dayton, Ohio 45415

To the Members of the Board:

We have audited the accompanying Balance Sheet of the North Dayton School of Discovery Community School, Montgomery County, (the School), as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. 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 North Dayton School of Discovery Community School, Montgomery County, as of June 30, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2004, 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.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

January 15, 2004

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**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**BALANCE SHEET  
JUNE 30, 2003**

**ASSETS**

Cash	\$67,985
Due from Other Governments	<u>21,315</u>
 TOTAL	 <u><u>\$89,300</u></u>

**LIABILITIES AND EQUITY**

LIABILITIES:

Due to National Heritage Academies, Inc.	\$67,990
Deferred Revenue	<u>6,595</u>

TOTAL LIABILITIES 74,585

EQUITY:

Retained Earnings	<u>14,715</u>
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TOTAL \$89,300

*See accompanying notes to the financial statements.*

**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2003**

**OPERATING REVENUES:**

State aid	\$1,767,896
Other state sources	66,250
Local sources	<u>25,006</u>
Total operating revenues	<u>1,859,152</u>

**OPERATING EXPENSES:**

Contracted service fee	2,003,158
Other	<u>13,184</u>
Total operating expenses	<u>2,016,342</u>

**OPERATING LOSS**

(157,190)

**NON-OPERATING REVENUE:**

Federal and state grants	<u>171,905</u>
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**NET INCOME**

14,715

RETAINED EARNINGS--JULY 1, 2002

**RETAINED EARNINGS--JUNE 30, 2003**

\$14,715

*See accompanying notes to the financial statements.*



**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from state sources	\$1,834,146
Cash received from local sources	25,006
Cash paid on behalf of the Academy for goods and services	<u>(1,948,352)</u>
Net cash used in operating activities	(89,200)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES -</b>	
Federal and state grants received	<u>157,185</u>
NET INCREASE IN CASH	67,985
CASH JULY 1, 2002	<u>                    </u>
<b>CASH JUNE 30, 2003</b>	<u><u>\$67,985</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:</b>	
Operating Loss	(\$157,190)
Adjustments to reconcile operating loss to net cash used for operating activities	
Changes in assets and liabilities - Due to National Heritage Academies, Inc.	<u>67,990</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u><u>(\$89,200)</u></u>

*See accompanying notes to the financial statements.*

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**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

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

North Dayton School of Discovery (the Academy) was incorporated on January 26, 2001, and began operations during the fiscal year ended June 30, 2003. The Academy operates under an approved charter received from the Ohio State Board of Education (the "Sponsor"), which is responsible for oversight of the Academy's operations. The Academy provides education, at no cost to the parent, to students in kindergarten through the fifth grade. Enrollment is open to all appropriate aged children without regard to gender, ethnic background, disability, and /or religious affiliation.

The Academy was approved for operation under contract with the Ohio State Board of Education ("Sponsor") through June 30, 2006. The contract is renewable by the Sponsor. The Academy operates under a five member Board of Directors (the "Board"). The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers.

The Academy's primary sources of revenue are provided by the State of Ohio and consist of amounts per student multiplied by weighted average student counts. The State revenue is recognized ratably over the school year and was funded through payments from July 2002 through June 2003.

The Board of Directors of the Academy has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students. (See Note 7)

The Board of Directors for the North Dayton School of Discovery also serves Pathway School of Discovery in Dayton, Ohio which is defined as a related party. (See Note 6)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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. As permitted by generally accepted accounting principles, the Academy has elected to apply only applicable Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989. The more significant of the Academy's accounting policies are described below.

**A. Basis of presentation**

Enterprise accounting is used to account for operations that are financed and operated in manner similar to private business enterprises where the intent is that the costs (expense), 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.

**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**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 balance sheet. The operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

**C. Budgetary Process**

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

**D. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

**E. Cash**

Cash as of June 30, 2003, represents bank deposits, which are covered by federal depository insurance. Accordingly, there were no investments which are required to be categorized according to risk.

**F. Deferred Revenues**

Deferred Revenues as of June 30, 2003, consist of funds received for services which have not been performed.

**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**G. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program, State Disadvantaged Pupil Impact Aid (DPIA) Program, and State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Eligibility requirements include timing requirements, which specify 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 specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to offset start up costs of the school. The Academy received \$81,300 in revenue during fiscal 2003 from this program which is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2003 school year totaled \$2,006,051.

**H. Payables**

Payables at June 30, 2003, consist of payments to National Heritage Academies, Inc. for management services rendered in fiscal year 2003.

**I. Tax Exempt Status**

The Academy has not filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code, nor have they filed a tax return for fiscal 2003. The Academy has made no provision for any potential future tax liability which could result from not obtaining the § 501 (c)(3) tax exempt status.

**J. New Accounting Pronouncement**

In June 1999, the Governmental Accounting Standards Board (GASB) issued statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In June 2001, the GASB issued statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which refines and clarifies certain provisions of Statement No. 34 and Statement No. 38, *Certain Financial Statement Disclosures*, which modifies several financial statement disclosures. These statements are required to be adopted by the Academy in the fiscal year beginning after July 1, 2003, and establish new financial reporting requirements for state and local governments throughout the United States. These requirements also include, among other things, government-wide financial statements and preparation of management's discussion and analysis as part of the annual financial statements. Management does not expect implementation of these Statements to have a material impact on the Academy's results of operations.

**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

**Deposits:** At June 30, 2003, the carrying amount of the Academy's deposits and bank balance was \$67,985, the entire balance of which was covered by federal depository insurance.

**4. INTERGOVERNMENTAL RECEIVABLES**

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2003 consisted of the federal Title I (\$14,046) and Title IIA (\$4,685) and Title IID (\$2,584).

**5. RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained through Employers Mutual Casualty Insurance Companies. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Employers Mutual Insurance Companies also provides umbrella liability coverage of \$2,000,000 per occurrence, as well as, in the aggregate.

**6. RELATED PARTIES**

The Board of North Dayton School of Discovery serves in the same capacity for Pathway School of Discovery in Dayton, Ohio. National Heritage Academies, Inc. is also Pathway School of Discovery's management company.

**7. AGREEMENT WITH NATIONAL HERITAGE ACADEMIES, INC.**

The Board of Directors of the Academy have entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The agreement will automatically renew on a year-to-year basis, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. During fiscal year 2003, the NHA received a total of \$2,003,158 for the services provided. NHA provides a spending account to the Board of Directors for discretionary expenditures on an annual basis.

NHA has informed the Academy that the contracted service fee for fiscal 2003 includes payment for the following:

**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**7. AGREEMENT WITH NATIONAL HERITAGE ACADEMIES, INC. (Continued)**

Instruction:	
Basic instruction	\$ 954,038
Added needs	41,143
Special education	77,489
Support services:	
Pupil services	38,884
Instructional staff	153,078
Board of education	37,772
Executive administration	217,599
Office of the Principal	299,732
Business support services	44,116
Operations and maintenance	841,157
Central services	120,528
Food services	83,602
NHA Contribution	<u>(905,980)</u>
Total contracted service fee	<u>\$ 2,003,158</u>

The NHA Contribution above represents the amount granted by NHA for the excess of Academy expenditures over the public revenues available.

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2003, were \$16,952, 100% was contributed for fiscal 2003.

**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**B. State Teachers Retirement System**

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

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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations for the fiscal year ended June 30, 2003, were \$73,344, 100% was contributed for fiscal 2003.



**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002. For the Academy, this amount equaled \$ 5,642 during the 2003 fiscal year.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. 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, 2003, the allocation rate is 8.54 percent. 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 2003, the minimum pay has been established at \$12,400. For the Academy, the amount to fund health care benefits, including the surcharge, was \$16,952 for fiscal year 2003.

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 annual health care expenses. Expenses for health care at June 30, 2002, were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits of \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

**10. CONTINGENCIES**

**A. Grants**

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

**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**10. CONTINGENCIES (Continued)**

**B. State funding**

The Ohio Department of Education conducts reviews of enrollment data and 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. The results of this review could result in the State funding being adjusted. The Academy does not anticipate any material adjustments to State funding for fiscal year 2004, as a result of such a review.

**C. Litigation**

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools 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 set for oral argument on November 18th, 2003. The effect of this suit, if any, on the North Dayton School of Discovery is not presently determinable.

**11. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school funding scheme that is thorough and efficient ...". The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.



**Auditor of State  
Betty Montgomery**

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

North Dayton School of Discovery Community School  
Montgomery County  
3901 Turner Road  
Dayton, Ohio 45415

To the Members of the Board:

We have audited the financial statements of the North Dayton School of Discovery Community School, Montgomery County, (the School), as of and for the year ended June 30, 2003, and have issued our report thereon dated January 15, 2004. We conducted our audit in accordance with auditing standards generally accepted by 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 performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the School in a separate letter dated January 15, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated January 15, 2004.

North Dayton School of Discovery Community School  
Montgomery County  
Independent Accountants' Report on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

January 15, 2004



**Auditor of State  
Betty Montgomery**

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Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**NORTH DAYTON SCHOOL OF DISCOVERY COMMUNITY 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  
APRIL 13, 2004**