

A photograph of a line of diverse young students in school uniforms standing in a hallway. The students are of various ethnicities and are looking towards the camera. They are wearing white polo shirts and dark pants or skirts. The background is a brightly lit hallway with a door visible in the distance.

Emerson Academy of Dayton

*Office of Management and Budget Circular
A-133 Reports Including Supplemental
Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2007*



Mary Taylor, CPA
Auditor of State

Board of Directors
Emerson Academy of Dayton
c/o National Heritage Academies
3850 Broadmoor Ave SE, Ste 201
Grand Rapids, Michigan 49512

We have reviewed the *Independent Auditors' Report* of the Emerson Academy of Dayton, Montgomery County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 17, 2007

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EMERSON ACADEMY OF DAYTON

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Emerson Academy of Dayton
Dayton, Ohio 45410

We have audited the accompanying statement of net assets of Emerson Academy of Dayton (the "Academy") as of June 30, 2007, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. 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 *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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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, such financial statements present fairly, in all material respects, the financial position of the Academy as of June 30, 2007 and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 to 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Academy's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Academy's basic financial statements. The accompanying supplemental schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Ohio Department of Education, and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Academy's management. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2007, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 23, 2007

EMERSON ACADEMY OF DAYTON

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

Financial Highlights

For the fiscal year ended June 30, 2007, total assets were \$193,975, total liabilities were \$155,674, and total net assets were \$38,301.

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.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the academy.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance

most of these activities. 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. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. 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.

The table below provides a summary of the Academy’s net assets for fiscal years ended June 30:

	2007	2006
Assets—current	\$ 193,975	\$ 458,722
Liabilities—current	<u>155,674</u>	<u>419,746</u>
Net assets—unrestricted	<u>\$ 38,301</u>	<u>\$ 38,976</u>

The unrestricted net assets represent the accumulated results of the Academy’s operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which shows the change in net assets.

Statement of Revenues, Expenses and Changes in Net Assets

The table below shows the changes in net assets as well as a listing of revenues and expenses for the fiscal years ending June 30:

	2007	2006
Operating revenues:		
Foundation payments	\$ 2,702,626	\$2,446,131
Food services	8,709	10,780
Other revenues	<u>7,035</u>	<u>6,284</u>
Total operating revenue	<u>2,718,370</u>	<u>2,463,195</u>
Operating expenses—		
Contracted service fee	<u>4,437,346</u>	<u>3,984,198</u>
Operating loss	(1,718,976)	(1,521,003)
Nonoperating revenues:		
Federal grants	576,931	682,454
State grants	10,042	5,000
Private sources—NHA	<u>1,131,328</u>	<u>854,221</u>
Total nonoperating revenues	<u>1,718,301</u>	<u>1,541,675</u>
Change in net assets	<u>\$ (675)</u>	<u>\$ 20,672</u>

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of business activities was \$4,437,346. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. Revenues—Private sources—NHA represent a credit granted by NHA for the excess of Academy expenses over public revenues available.

The Academy experienced a decrease in net assets of \$675 in 2007. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

General Economic Factors

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2008.

Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste. 201, Grand Rapids, MI 49512.

EMERSON ACADEMY OF DAYTON

STATEMENT OF NET ASSETS

JUNE 30, 2007

ASSETS:

Cash	\$ 48,480
Intergovernmental receivable	<u>145,495</u>

Total assets	<u>193,975</u>
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LIABILITIES:

Intergovernmental payable	279
Due to National Heritage Academies, Inc.	<u>155,395</u>

Total liabilities	<u>155,674</u>
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NET ASSETS—Unrestricted	<u>\$ 38,301</u>
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See notes to financial statements.

EMERSON ACADEMY OF DAYTON

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2007

OPERATING REVENUES:	
Foundation payments	\$ 2,702,626
Food services	8,709
Other revenues	<u>7,035</u>
Total operating revenues	<u>2,718,370</u>
OPERATING EXPENSES—Contracted service fee	<u>4,437,346</u>
OPERATING LOSS	<u>(1,718,976)</u>
NONOPERATING REVENUES:	
Federal grants	576,931
State grants	10,042
Private sources—National Heritage Acadmies, Inc.	<u>1,131,328</u>
Total nonoperating revenue	<u>1,718,301</u>
CHANGE IN NET ASSETS	(675)
NET ASSETS—Beginning of year	<u>38,976</u>
NET ASSETS—End of year	<u>\$ 38,301</u>

See notes to financial statements.

EMERSON ACADEMY OF DAYTON

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	\$ 2,524,634
Cash received from food services	8,709
Cash received from other operating revenue	7,035
Cash paid on behalf of the Academy for goods and services	<u>(4,529,056)</u>
Net cash used for operating activities	<u>(1,988,678)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	846,633
State grants received	10,042
Support from private sources—National Heritage Academies, Inc.	<u>1,131,328</u>
Net cash provided by noncapital financing activities	<u>1,988,003</u>
NET DECREASE IN CASH	(675)
CASH—Beginning of year	<u>49,155</u>
CASH—End of year	<u>\$ 48,480</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Operating Loss	\$ (1,718,976)
Changes in Assets and Liabilities:	
Increase in intergovernmental receivable	(5,350)
Decrease in deferred state revenue	(172,642)
Decrease in due to National Heritage Academies, Inc	<u>(91,710)</u>
Net change in assets and liabilities	<u>(269,702)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (1,988,678)</u>

See notes to financial statements.

EMERSON ACADEMY OF DAYTON

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

1. NATURE OF OPERATIONS

Emerson Academy of Dayton (the “Academy”) is an Ohio Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under an approved charter received from Lucas County Educational Service Center (“LCESC” or the “Sponsor”), which is responsible for oversight of the Academy’s operations. The charter’s term expires on May 30, 2011 at which time it will automatically renew on a year-to-year basis, unless at least 90 days written notice is given by either the Academy or LCESC. The Academy provides education to students in kindergarten through the seventh grade, at no cost to the parent. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy was established and is operated as a non-profit corporation under Chapter 1702 of the Ohio Revised Code and believes itself to be exempt from taxation under Internal Revenue Code Section 115(1) because its income is derived from the exercise of an essential governmental function and accrues to the State of Ohio. Donations to the Academy qualify as a charitable deduction under Internal Revenue Code Section 170(c)(1).

The Academy operates under the direction of a Board of Directors (the “Board”). The Board is responsible for carrying out the provisions of the contract with the Sponsor 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 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. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The facility lease term is from July 1st to June 30th and is renewable on a year to year basis. 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. NHA provides a spending account to the Board for discretionary expenses on an annual basis. Revenues—private sources—National Heritage Academies, Inc. represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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.

A. Basis of Presentation

The Academy'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 revenues, expenses and 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 Academy finances and meets the cash flow needs of its enterprises activities.

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Cash Deposits

For cash management, all cash received by the Chief Financial Officer is pooled in a non-interest bearing central bank account. Total cash for the Academy is presented as “Cash” on the accompanying Statement of Net Assets. Cash as of June 30, 2007, represents bank deposits, which are covered by federal depository insurance.

G. Current Liabilities

Due to National Heritage Academies, Inc.—this amount consists of payments due to NHA for management services rendered in fiscal year 2007.

H. Operating Revenues and Expenses

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

Grants and entitlements are recognized as nonoperating revenue in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when resources are required to be used or the fiscal year when use is 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.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At fiscal year end June 30, 2007, the Academy had no restricted net assets.

3. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2007, the Academy’s bank balance was \$61,271. Based on the criteria described in GASB Statement No. 40, “Deposit and Investment Risk Disclosure,” as of June 30, 2007, none of the bank balance was exposed to custodial risk as discussed below, all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. 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 the Federal Reserve Bank 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.

4. RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Title I	\$51,707
Title IIA	7,197
Title IID	611
Title V	1,573
Charter School Grant	47,170
IDEA, Part B	14,633
School Lunch	<u>22,604</u>
Total Intergovernmental Receivables	<u>\$145,495</u>

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System—NHA, on behalf of certain employees at 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 10 percent of their annual covered salary and NHA is required to contribute at an actuarially determined rate. The current NHA rate is 14 percent of annual covered payroll. A portion of NHA’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. 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. NHA’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005, were \$33,932, \$29,480 and \$25,104, respectively; and 100 percent was contributed for each fiscal year.

B. State Teachers Retirement System—NHA, on behalf of teachers at 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 East Broad St., Columbus, Ohio 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 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 DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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.

Plan members are required to contribute 10 percent of their annual covered salaries. NHA was required to contribute 14 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. NHA's required contributions for pension obligations for the fiscal years ended June 30, 2007, 2006 and 2005, were \$151,439, \$125,370 and \$68,774, respectively; 100 percent was contributed for each fiscal year.

6. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio and to retired, non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored 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. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$10,817 for fiscal 2007.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2006 (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were approximately \$300.7 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to disability and survivor benefit recipients. All members must pay a portion of their

premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 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 2007, the minimum pay was established at \$35,800. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$11,702.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provided 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, 2006, were approximately 158.4 million. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs of approximately \$133.8 million. On the basis of actuarial projections, the allocated contributions will be less than the total claims in future years and the future reserve amounts will eventually be less than the target of 150 percent of estimated annual net claim costs. SERS has approximately 57,868 participants receiving health care benefits.

7. 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 Indiana Insurance Company. General liability coverage provides \$1,000,000 per occurrence and \$5,000,000 in the aggregate with no deductible. The Indiana Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate. There have been no significant reductions in insurance coverage during fiscal year 2007, and claims did not exceed coverage during the past three fiscal years.

8. 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 management, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

B. Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under the Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

C. 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 2007, as a result of such a review.

9. CONTRACTED SERVICE FEE

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

Salaries, wages and benefits	\$1,845,645
Professional and technical services	289,821
Property services	795,761
Travel	15,416
Utilities	95,297
Contracted (trade) services	27,234
Purchased services	536,278
Books, periodicals and films	174,120
Food and related supplies	165,821
Supplies	154,632
Insurance and property taxes	150,582
Field trips and student activities	70,947
Equipment lease and purchases	<u>115,792</u>
Total contracted service fee	<u>\$4,437,346</u>

10. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with the LCESC. This agreement provides that LCESC receives approximately one percent of State Foundation funds received by the Academy from the State of Ohio. This amounted to \$35,157 for fiscal year 2007.

* * * * *

SUPPLEMENTAL SCHEDULE

EMERSON ACADEMY OF DAYTON

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Education—				
Passed through the Ohio Department of Education:				
Charter School Grant	000577-CHS1-2006	84.282	\$ 270,000	\$ -
	000577-CHS1-2007		<u>102,830</u>	<u>135,562</u>
			372,830	135,562
Title I Grants to Local Educational Agencies	000577-C1S1-2006	84.010	61,493	4,694
	000577-C1S1-2007		<u>183,428</u>	<u>202,768</u>
			244,921	207,462
Title II Improving Teacher Quality	000577-TRS1-2006	84.367	7,862	7,165
	000577-TRS1-2007		<u>1,996</u>	<u>6,229</u>
			9,858	13,394
Title IV Safe & Drug Free Schools	000577-DRS1-2007	84.186	279	-
Title V LEA Allocation	000577-C2S1-2006	84.298	602	-
	000577-C2S1-2007		<u>592</u>	<u>592</u>
			1,194	592
Title IID Technology Education	000577-TJS1-2006	84.318	849	-
	000577-TJS1-2007		<u>2,004</u>	<u>2,781</u>
			2,853	2,781
IDEA Part B	000577-6BSF-2006	84.027	5,014	-
	000577-6BSF-2007		<u>68,275</u>	<u>80,860</u>
			73,289	80,860
Total U.S. Department of Education			<u>705,224</u>	<u>440,651</u>
Clusters—				
Child Nutrition Cluster				
U.S. Department of Agriculture—				
Passed through the Ohio Department of Education:				
School Breakfast Program:		10.553		
Project Number 061960 (2005-2006)			6,042	-
Project Number 071960 (2006-2007)			<u>31,055</u>	<u>36,738</u>
			37,097	36,738
National School Lunch Program:		10.555		
Project Number 061950 (2005-2006)			13,778	-
Project Number 071950 (2006-2007)			<u>90,534</u>	<u>107,456</u>
			104,312	107,456
Total U.S. Department of Agriculture			<u>141,409</u>	<u>144,194</u>
TOTAL			<u>\$ 846,633</u>	<u>\$ 584,845</u>

See note to supplemental schedule of expenditures of federal awards.

EMERSON ACADEMY OF DAYTON

NOTE TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2007

A. BASIS OF PRESENTATION

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented in accordance with the U.S. Office of Management and Budget (“OMB”) Circular A-133 and is prepared using the cash basis of accounting.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Emerson Academy of Dayton
Dayton, Ohio 45410

We have audited the financial statements of Emerson Academy of Dayton (the "Academy") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal 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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management of the Academy, National Heritage Academies, Inc., Lucas County Education Service Center, federal awarding agencies, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 23, 2007

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Emerson Academy of Dayton
Dayton, Ohio 45410

Compliance

We have audited the compliance of Emerson Academy of Dayton (the "Academy") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the Ohio School Auditing Manual that are applicable to each of its major federal programs for the year ended June 30, 2007. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Ohio Department of Education. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy'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 of the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management of the Academy, National Heritage Academies, Inc., Lucas County Education Service Center, federal awarding agencies, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 23, 2007

EMERSON ACADEMY OF DAYTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2007

PART I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued	Unqualified		
Internal control over financial reporting: Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiency(s) identified not considered to be material weaknesses?	_____ Yes	<u> X </u> N/A	
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

Internal control over major programs: Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiency(s) identified not considered to be material weaknesses?	_____ Yes	<u> X </u> N/A	
Type of auditors’ report issued on compliance for major programs	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))?	_____ Yes	<u> X </u> No	

Identification of major programs:

Name of Federal Program or Cluster Number	CFDA Number
Title I Grants to Local Educational Agencies Child Nutrition Cluster:	84.010
National School Lunch Program	10.555
School Breakfast Program	10.553

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000		
Auditee qualified as low-risk auditee?	_____ Yes	<u> X </u> No	

PART II—FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*:

No matters are reportable.

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters are reportable.

EMERSON ACADEMY OF DAYTON

SCHEDULE OF PRIOR YEAR FINDINGS YEAR ENDED JUNE 30, 2007

PART I—FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*:

No matters are reportable.

PART II—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters are reportable.



Mary Taylor, CPA
Auditor of State

EMERSON ACADEMY OF DAYTON

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
DECEMBER 27, 2007**