



Dave Yost • Auditor of State

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the North Dayton School of Discovery, Montgomery County, Ohio (the County), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinion on these financial statements based on our audit. We did not audit the contracted service fees, which represents 99.98 percent, of the School's expenses. Those expenses were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the School, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. The other auditors audited the contracted service fees expenses of *North Dayton School of Discovery* in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Dayton School of Discovery, Montgomery County, Ohio, as of June 30, 2012, and the respective changes in financial position and cash flows, thereof 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 July 12, 2013, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

Columbus, Ohio

July 12, 2013

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

The discussion and analysis of North Dayton School of Discovery's (the "Academy") financial performance provides an overall review of the Academy's financial activities through June 30, 2012. 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, 2012, total assets were \$383,172, total liabilities were \$320,292, and total net assets were \$62,880.

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 services 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.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

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

	<u>2012</u>	<u>2011</u>
Assets:		
Current assets	\$376,382	\$443,537
Capital assets, net of accumulated depreciation	6,790	7,835
Total assets	<u>383,172</u>	<u>451,372</u>
Liabilities—current	<u>320,292</u>	<u>409,886</u>
Net assets:		
Invested in capital assets, net of related debt	6,790	7,835
Unrestricted	56,090	33,651
Total net assets	<u>\$ 62,880</u>	<u>\$ 41,486</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:

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Foundation payments	\$3,558,565	\$3,723,525
Food services	8,382	9,160
Other revenues	5,025	3,926
Total operating revenues	<u>3,571,972</u>	<u>3,736,611</u>
Operating expenses:		
Depreciation	1,045	1,044
Contracted service fee	5,646,390	5,889,641
Total operating expenses	<u>5,647,435</u>	<u>5,890,685</u>
Operating loss	<u>(2,075,463)</u>	<u>(2,154,074)</u>
Non-operating revenues:		
Federal grants	923,135	1,421,995
State grants	7,946	12,946
Private sources - NHA	1,165,776	745,908
Total non-operating revenues	<u>2,096,857</u>	<u>2,180,849</u>
Change in net assets	<u>\$ 21,394</u>	<u>\$ 26,775</u>

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of business activities was \$5,647,435. 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 contribution from NHA for the excess of Academy expenses over public revenues available.

The Academy experienced an increase in net assets of \$21,394 in 2012. 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.

Capital Assets

At June 30, 2012, the Academy had \$6,790 invested in capital assets with purchases through the Charter School Grant and board discretionary funds, primarily other equipment. Capital assets are substantially provided as part of the agreement with NHA.

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 2013.

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.

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**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2012**

CURRENT ASSETS:

Cash	\$45,833
Intergovernmental receivables	<u>330,549</u>
Total current assets	<u>376,382</u>

NON-CURRENT ASSETS:

Capital assets, Net	<u>6,790</u>
Total assets	<u>383,172</u>

LIABILITIES:

Unearned revenue	721
Contracted service fee payable	<u>319,571</u>
Total liabilities	<u>320,292</u>

NET ASSETS:

Invested in capital assets, net of related debt	6,790
Unrestricted	<u>56,090</u>

TOTAL NET ASSETS	<u><u>\$62,880</u></u>
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See accompanying notes to basic financial statements

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OPERATING REVENUES:

Foundation payments	\$3,558,565
Food services	8,382
Other revenues	5,025
	5,025
Total operating revenues	3,571,972

OPERATING EXPENSES:

Depreciation	1,045
Contracted service fee	5,646,390
	5,646,390
Total operating expenses	5,647,435

OPERATING LOSS	(2,075,463)
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NONOPERATING REVENUES:

Federal grants	923,135
State grants	7,946
Private sources — National Heritage Academies, Inc.	1,165,776
	1,165,776
Total nonoperating revenue	2,096,857

CHANGE IN NET ASSETS	21,394
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NET ASSETS — Beginning of year	41,486
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NET ASSETS — End of year	\$62,880
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See notes to financial statements.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$3,600,977
Cash received from food services	8,672
Cash received from other operating revenue	5,025
Cash paid on behalf of the Academy for goods and services	<u>(4,570,498)</u>
 Net cash used in operating activities	 <u>(955,824)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	960,060
State grants received	<u>7,946</u>
 Net cash provided by noncapital financing activities	 <u>968,006</u>

NET INCREASE IN CASH 12,182

CASH — Beginning of year 33,651

CASH — End of year 45,833

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	(2,075,463)
 In-kind services - National Heritage Academies, Inc.*	 1,165,776
Depreciation	1,045
Changes in assets and liabilities:	
Change in intergovernmental receivable affecting operating revenue	42,412
Change in unearned revenue	290
Change in contracted service fee payable	<u>(89,884)</u>
 NET CASH USED IN OPERATING ACTIVITIES	 <u><u>(\$955,824)</u></u>

*The Management Company (NHA) has provided in-kind services in an amount of \$1,165,776

See accompanying notes to the basic financial statements.

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**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

1. NATURE OF OPERATIONS

North Dayton School of Discovery (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 ESC of Lake Erie West ("ESC" or the "Sponsor"), which is responsible for oversight of the Academy's operations. The charter's term expires on June 30, 2012, 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 the ESC.

The Academy provides education to students in kindergarten through the eighth 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's primary source of revenue is provided by the State of Ohio and consists of an amount 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 through June for each fiscal year.

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 services 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 continue until termination of the charter contract, inclusive of any charter contract renewals, 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. *Revenues—private sources—NHA* represent a contribution granted by NHA for the excess of Academy expenditures over public revenues available.

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 Academy does not apply FASB statements or interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 semi-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.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012, represents bank deposits, which are covered by federal depository insurance.

G. Capital Assets

Capital assets, which include other equipment, are reported in the government-wide financial statements at historical cost. Capital assets are defined as other equipment purchased through the Charter School Grant with an estimated useful life in excess of one year and assets purchased by the Academy with an initial cost of more than \$5,000 and an estimated useful life in excess of one year.

Other equipment is depreciated using the straight-line method over useful lives of 3-10 years.

H. Current Liabilities

Contracted Service Fee Payable — this amount consists of payments due to NHA for management services rendered in fiscal year 2012.

I. Operating Revenues and Expenses

Intergovernmental Revenues — the Academy currently participates in the State Foundation Program, the Poverty Based Assistance (PBA) Program, Parity Aid 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 non-operating 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.

J. 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 by the governing board or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At fiscal year end June 30, 2012, the Academy had no restricted net assets.

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

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

3. Deposits and Investments

At fiscal year end June 30, 2012, the Academy's bank balance was \$45,833. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2012, none of the bank balance was exposed to custodial risk as discussed as, all of the bank balance was covered by the Federal Depository Insurance Corporation.

4. Receivables

Receivables at June 30, 2012, 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:

	Amounts
Title I	\$208,918
Title I School Improvement	20,564
Title IIA	11,192
Title IID	907
Title V	1,460
IDEA Part B	3,323
Race to the Top	66,585
National School Lunch and Breakfast	3,514
Entry Level Teacher	3,150
Due from State	10,936
 Total intergovernmental receivables	 \$ 330,549

5. Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	Balance	Additions	Deletions	Balance
Depreciable Capital Assets:				
Furniture and Equipment	\$163,286			\$163,286
Total Depreciable Capital Assets	163,286			\$163,286
Less Accumulated Depreciation	(155,451)	(\$1,045)		(156,496)
Total accumulated depreciation	(155,451)	(1,045)		(156,496)
 Capital Assets, Net	 \$ 7,835	 (\$1,045)	 \$0	 \$ 6,790

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

6. PENSION PLANS

A. School Employees Retirement System

Plan Description – NHA and contractors of NHA, on behalf of certain employees at the Academy, contribute to the School Employees Retirement System (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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 on SERS’ website at www.ohsers.org, under Employers/Audit Resources.

Funding Policy – Plan members were required to contribute 10 percent of their annual covered salary and NHA is required to contribute at an actuarially determined rate. NHA’s current rate is 14 percent of annual covered payroll. A portion of NHA contributions are used to fund pension obligations with the remainder being used to fund health care benefits. For the fiscal year ending June 30, 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NHA’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010, were \$21,594, \$18,567, and \$38,611, respectively; and 100 percent was contributed for each fiscal year.

B. State Teachers Retirement System

Plan Description – 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained on Ohio STRS’ website at www.strsoh.org, under Publications.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member’s lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account.

Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

6. PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

NHA's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2012, 2011 and 2010, were \$216,196, \$177,249, and \$199,332 respectively; 100 percent was contributed for each fiscal year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. Although the employees at the North Dayton School of Discover are either SERS or STRS, NHA has also opted to enroll the employees in the Federal Insurance Corporation of America (Social Security). Each employee's liability is 4.2 percent of wages paid, and NHA's liability is 6.2 percent of total wages paid.

7. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – NHA and contractors of NHA, on behalf of certain employees at the Academy, participates in two cost-sharing, multiple employer postemployment benefit plans administered by SERS for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report, which may be obtained on SERS' website at www.ohsers.org, under Employers/Audit Resources.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

NHA's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,092, \$2,248, and \$1,390 respectively, 100 percent was contributed in each fiscal year.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is 0.75 percent of covered payroll. NHA's contributions (including surcharge) to the Medicare B Fund for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,135, \$1,195, and \$2,296 respectively, 100 percent was contributed in each fiscal year.

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

NHA's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$16,630, \$18,964, and \$18,962 respectively; 100 percent was contributed for each fiscal year.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. 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 2012, and claims did not exceed coverage during the past three fiscal years.

9. 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. 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. As a result of the fiscal yearend review, the Ohio Department of Education owed the Academy \$10,936.

10. CONTRACTED SERVICE FEE

NHA incurred the following actual direct and indirect expenses on behalf of the Academy for the year ended June 30, 2012:

Direct expenses:	
Salaries, wages and benefits	\$2,571,095
Professional and technical services	515,628
Contracted (trade) services	26,112
Property services	990,731
Books, periodicals and films	23,375
Supplies	233,960
Utilities	65,779
Food and related supplies	331,254
Travel and training	84,002
Purchased service	53,908
Equipment lease and purchases	121,275
Field trips and student activities	5,170
Insurance and property taxes	16,676
Total direct expenses	5,038,965
Total indirect expenses (overhead)	607,425
Total contracted service fee	\$5,646,390

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. CONTRACTED SERVICE FEE (Continued)

NHA charges expenses benefiting more than one school (i.e. indirect overhead expenses) based on key cost drivers. These charges represent indirect cost of services provided in the operation of the Academy. Such services include, but are not limited to facilities management, equipment, operational support services, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

11. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with the ESC. This agreement provides that the ESC receives approximately 1.5 percent of State Foundation funds received by the Academy from the State of Ohio. This amounted to \$52,304 for fiscal year 2012.

12. OPERATING LEASE

The Academy has entered into a sub-lease for classroom facilities with NHA located at 3901 Turner Road, Dayton, Ohio, 45415. The terms of the lease are for one year commencing on July 1 and ending on June 30. For the fiscal year 2012, the rental amounts for the lease were \$809,760 annually, payable in equal monthly installments of \$67,480. In addition, the lease terms require the Academy to be responsible for all costs associated with the facilities including property taxes and maintenance costs.

The Academy subsequently renewed the sub-lease with NHA for the period of July 1, 2012 through June 30, 2013 at the same rental rate.

13. RELATED PARTY

The Academy rents its facilities from NHA, the School's management company. Total 2012 rental payments for the lease were \$809,760. See note 12 for additional information.

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. also serves as the management company for Pathway School of Discovery.

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**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR Pass Through Grantor Program Title	Federal CFDA Number	Fiscal Year	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Child Nutrition Cluster:						
Non-Cash Assistance (Food Distribution):						
National School Lunch Program	10.555			\$18,031		\$18,031
Cash Assistance:						
School Breakfast Program	10.553	2011	\$4,010			
		2012	95,001		\$96,324	
Total School Breakfast Program			99,011		96,324	
National School Lunch Program	10.555	2011	9,278			
		2012	208,499		210,690	
Total National School Lunch Program			217,777		210,690	
Total Child Nutrition Cluster			316,788	18,031	307,014	18,031
Total U.S. Department of Agriculture			316,788	18,031	307,014	18,031
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Title I, Part A Cluster:						
Title I Grants to Local Educational Agencies	84.010	2011	34,420		11,053	
		2012	250,769		317,313	
School Improvement Subsidy A, Title I		2011	20,559		17,534	
		2012	34,435		47,050	
Total Title I Grants to Local Educational Agencies			340,183		392,950	
ARRA - Title I Grants to Local Educational Agencies	84.389	2011	30,917		48,144	
ARRA - School Improvement Subsidy A, Title I		2011	14,461		9,990	
Total ARRA - Title I Grants to Local Educational Agencies			45,378		58,134	
Total Title I, Part A Cluster			385,561		451,084	
Special Education Cluster (IDEA):						
Special Education Grants to States	84.027	2012	96,499		99,821	
ARRA - Special Education Grants to States	84.391	2011	45,756		7,034	
Total Special Education Cluster (IDEA)			142,255		106,855	
Education Technology State Grants	84.318	2011	312		313	
		2012	1,623		1,623	
Total Education Technology State Grants			1,935		1,936	
Improving Teacher Quality State Grants	84.367	2011	8,375		8,374	
		2012	7,035		7,699	
Total Improving Teacher Quality State Grants			15,410		16,073	
ARRA - State Fiscal Stabilization Fund (SFFSF) Race to the Top - Incentive Grants	84.395	2011	27,594			
		2012	49,335		98,626	
Total ARRA - State Fiscal Stabilization Fund (SFFSF) Race to the Top - Incentive Grants			76,929		98,626	
Total U.S. Department of Education			622,090		674,574	
Total Federal Financial Assistance			<u>\$938,878</u>	<u>\$18,031</u>	<u>\$981,588</u>	<u>\$18,031</u>

The accompanying notes are an integral part of this schedule.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the North Dayton School of Discovery (the School's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The School reports commodities consumed on the Schedule at the fair value. The School allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of North Dayton School of Discovery, Montgomery County, (the School) as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated July 12, 2013. Our report refers to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits from the Comptroller General of the United States' *Government Auditing Standards*. Other auditors audited the contracted services amount as described in our report on the School's financial statements. The schedule of contracted services fee expenditures was not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings and questioned costs we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. We consider finding 2012-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

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

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

July 12, 2013



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Directors:

Report on Compliance for Each Major Federal Program

We have audited the North Dayton School of Discovery's (the School) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the North Dayton School of Discovery's major federal programs for the year ended June 30, 2012. The *Summary of Audit Results* in the accompanying schedule of findings and questioned costs identifies the School's major federal programs.

Management's Responsibility

The School's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School's compliance for each of the School's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. 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 our audit provides a reasonable basis for our compliance opinion on the School's major program. However, our audit does not provide a legal determination of the School's compliance.

Basis for Qualified Opinion on Child Nutrition Cluster

As described in finding 2012-002 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding allowable costs / cost principles applicable to its Child Nutrition Cluster major federal programs. Compliance with this requirement is necessary, in our opinion, for the School to comply with requirements applicable to these programs.

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster* paragraph, the North Dayton School of Discovery complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Child Nutrition Cluster* for the year ended June 30, 2012.

Unmodified Opinion on the Other Major Federal Program

In our opinion, North Dayton School of Discovery complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2012.

The School's response to our noncompliance finding is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on it.

Report on Internal Control over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-002 to be a material weakness.

The School's response to our internal control compliance finding is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on it.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

July 12, 2013

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**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Child Nutrition Cluster – Qualified Special Education Cluster - Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education Cluster (IDEA): Special Education Grants to States (84.027) ARRA – Special Education Grants to States (84.391) Child Nutrition Cluster: School Breakfast Program (10.553) National School Lunch Program (10.555)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2012-001

MATERIAL WEAKNESS

The School prepared its' annual Financial Statement in accordance with Generally Accepted Accounting Principles (GAAP). The School's Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2012 contained the following errors:

- Operating Revenue - Foundation Payments were understated \$179,577
- Non-Operating Revenue - State Grants were overstated by \$179,577.

The above noted error also resulted in the operating cash flows being overstated and non-capital financing cash flows being understated by \$179,577 on the accompanying statement of cash flows.

The exceptions were determined to be material and audit adjustments have been made to properly classify the revenues in the accompanying financial statements.

Sound financial reporting is the responsibility of the Treasurer and the Board and is essential to verify the information provided to the readers of the financial statements is complete and accurate. The School should develop and implement policies and procedures to verify that the amounts reported on the Financial Statements are accurate and properly disclosed. Failure to implement such procedures could result in material misstatements on the Financial Statements.

Official's Response:

Through its service agreement with National Heritage Academies, Inc. (NHA), the School maintains policies and procedures to ensure that amounts reported on the Financial Statements are accurate and properly disclosed. Such policies and procedures, including detailed review by various levels of NHA management, were provided and adhered to during the fiscal year 2012 audit. While it was identified that an error existed in the above noted draft Financial Statements, we respectfully disagree with the finding noting the School's Financial Statements contained material errors. The amount of operating revenues related to Foundation Payments was properly reclassified prior to providing a final draft audit report to Ohio Auditor of State Audit Team.

Auditor of State's Conclusion: Material errors were detected by the auditors during the fieldwork and audit adjustments were proposed at that time. In accordance with Statement on Auditing Standards (SAS) No. 115 codified as AU Section 325 paragraph 15, identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control were reported to the management and those charged with governance in finding 2012-001

FINDING NUMBER 2012-002

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2012-002
CFDA Title and Number	School Breakfast Program # 10.553 National School Lunch Program # 10.555
Federal Award Number / Year	2011 and 2012
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

MATERIAL WEAKNESS, NONCOMPLIANCE AND QUESTIONED COST – ALLOWABLE COSTS/COST PRINCIPLES

2 CFR Part 225, Appendix A, paragraph C.1 defines the general criteria for cost to be allowable under federal awards. Specifically **paragraph C.1.j.** requires the expenditure to be adequately documented for the cost to be allowable.

2 CFR Part 225, Appendix A, paragraph F.1 defines indirect costs as costs that are incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. **Appendix C, paragraph D.3** states that all other local governments claiming central service costs must develop a plan in accordance with the requirements describe in this appendix and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as sub-recipient, the primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub-recipient’s plan.

In Ohio, the Secretary of the U.S. Department of Education has delegated this authority to the Ohio Department of Education’s (ODE) Office of Federal and State Grants Management. All districts recovering indirect costs must have a plan on file with ODE.

34 CFR Section 80.36(3) states that grantees and sub-grantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. No employee, officer or agent of the grantee or sub-grantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when:

- (i) The employee, officer or agent,
- (ii) Any member of his immediate family,
- (iii) His or her partner, or
- (iv) An organization which employs, or is about to employ, any of the above, has a financial or other interest in the firm selected for award. The grantee's or sub-grantee's officers, employees or agents will neither solicit nor accept gratuities, favors or anything of monetary value from contractors, potential contractors, or parties to sub-agreements. Grantee and sub-grantees may set minimum rules where the financial interest is not substantial or the gift is an unsolicited item of nominal intrinsic value. To the extent permitted by State or local law or regulations, such standards or conduct will provide for penalties, sanctions, or other disciplinary actions for violations of such standards by the grantee's and sub-grantee's officers, employees, or agents, or by contractors or their agents. The awarding agency may in regulation provide additional prohibitions relative to real, apparent, or potential conflicts of interest.

**FINDING NUMBER 2012-002
(Continued)**

The School charged a monthly overhead expense (G&A allocation) to the Child Nutrition Cluster program. There was no indication the ODE approved the indirect cost plan for the School. For fiscal year 2012 the School paid its management company, National Heritage Academies (NHA), \$11,376 for overhead expenses.

The School charged monthly equipment rental payments to the Child Nutrition Cluster program. The vendor receiving payment for equipment rent was Charter Development Corporation, LLC (CDC). CDC is a wholly owned subsidiary company of the management company, National Heritage Academies (NHA). The School did not provide a signed lease agreement between the School and CDC, to document the amount of rent or that the lease was indeed an arm's length transaction. For fiscal year 2012 the School paid \$9,300 to CDC for rent of the lunch room equipment.

Finally, the School charged a monthly facilities cost allocation expense to the Child Nutrition Cluster program. The facilities cost included allocations for rent, trash, maintenance and utilities. These charges are considered to be indirect costs, therefore requiring an indirect cost allocation plan approved by ODE. For fiscal year 2012 the School paid \$19,080 to NHA for facilities cost allocation.

In accordance with the foregoing facts and pursuant to OMB Circular A133 Section .510 (a)(3) a federal questioned cost in the amount of \$39,756 is hereby issued. Policies and procedures should be established and implemented to develop controls that would detect and prevent any noncompliance with the federal awards.

Official's Response:

Through its service agreement with NHA the School maintains policies and procedures to ensure that controls are in place that detect and prevent any noncompliance with federal awards. We believe that certain of the expenses identified as indirect costs by the AOS are considered direct costs paid by the School. Specifically, equipment rental and other facilities costs (noted above) associated with the School's food service program are considered direct costs as they are calculated using data criteria specific to the School and its food service program (i.e. square footage, number of employees, etc...). As such, the School does not have an indirect cost allocation plan for these specific direct costs paid by the School.

We plan to provide an indirect cost allocation plan to ODE no later than June 30, 2014 related to the monthly overhead expenses (G&A allocation) paid by the School in accordance with **2 CFR Part 225 Appendix A**.

Auditor of State's Conclusion: Items such as rent, trash, maintenance and utilities are indirect costs because they are incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.



Dave Yost • Auditor of State

NORTH DAYTON SCHOOL OF DISCOVERY

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
NOVEMBER 7, 2013**