



Dave Yost • Auditor of State

EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Emerson Academy of Dayton
Montgomery County
501 Hickory Street
Dayton, Ohio 45410

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Emerson Academy of Dayton, Montgomery County, Ohio (the Academy), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emerson Academy of Dayton, Montgomery County, Ohio, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Academy's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule 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 schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2015, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

February 9, 2015

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The discussion and analysis of Emerson Academy of Dayton (the "Academy") financial performance provides an overall review of the Academy's financial activities through June 30, 2014. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. It should be read in conjunction with the financial statements and notes to the financial statements, which immediately follow this section, to enhance 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, *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, 2014, total assets were \$305,238, total liabilities were \$179,978, and total net position was \$125,260.

Using this Financial Report

This report consists of the MD&A, the financial statements, and notes to those statements. The financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, 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 position and the statement of revenues, expenses, and changes in net position, 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 position — the difference between assets and liabilities, as reported in the statement of net position — as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position — as reported in the statement of net position — 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 nonfinancial 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 position and the statement of revenues, expenses, and changes in net position 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.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

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

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets	\$276,959	\$287,168
Capital assets, net of accumulated depreciation	28,279	29,243
Total Assets	<u>305,238</u>	<u>316,411</u>
 Liabilities – current	 <u>179,978</u>	 <u>243,365</u>
 Net Position:		
Net investment in capital assets	28,279	29,243
Restricted – School Service Fund	67,977	26,212
Unrestricted	<u>29,004</u>	<u>27,591</u>
 Total Net Position	 <u>\$125,260</u>	 <u>\$73,046</u>

The unrestricted net position represents 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 position, which shows the change in net position.

Statement of Revenues, Expenses, and Changes in Net Position

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

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Foundation payments	\$5,691,666	\$4,941,700
Food services	9,646	2,584
Other revenues	96,896	32,382
Total Operating Revenues	<u>5,798,208</u>	<u>4,976,666</u>
 Operating Expenses:		
Depreciation	6,940	3,835
Expenses of the Board of Directors	22,393	
Contracted service fee	6,829,486	6,604,645
Total Operating Expenses	<u>6,858,819</u>	<u>6,608,480</u>
 Operating Loss	 <u>(1,060,611)</u>	 <u>(1,631,814)</u>
 Non-operating Revenues:		
Federal grants	1,103,116	1,223,641
State grants	9,709	24,034
Private sources – NHA		373,908
Total Non-operating Revenues	<u>1,112,825</u>	<u>1,621,583</u>
 Change in net position	 <u>\$52,214</u>	 <u>(\$10,231)</u>

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

As reported in the statement of revenues, expenses, and changes in net position, the cost of business activities was \$6,858,819. 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.

The Academy experienced an increase in net position of \$52,214 in 2014. Under the terms of the Agreement, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net position is the timing of these discretionary expenditures.

Capital Assets

At June 30, 2014, the Academy had \$28,279 invested in capital assets from 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 2015.

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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**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

Current Assets:	
Cash	\$32,541
Intergovernmental receivable	244,418
Total Current Assets	<u>276,959</u>
Non-current Assets:	
Capital assets	49,668
Less accumulated depreciation	<u>(21,389)</u>
Total Non-current Assets	<u>28,279</u>
Total Assets	<u>305,238</u>
Liabilities:	
Accounts payable	3,068
Unearned revenue	404
Contracted service fee payable	<u>176,506</u>
Total Liabilities	<u>179,978</u>
Net Position:	
Net investment in capital assets	28,279
Restricted – School Service Fund	67,977
Unrestricted	<u>29,004</u>
Total Net Position	<u><u>\$125,260</u></u>

See accompanying notes to the basic financial statements.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Operating Revenues:	
Foundation payments	\$5,691,666
Food services	9,646
Other revenues	96,896
Total Operating Revenues	<u>5,798,208</u>
Operating Expenses:	
Depreciation	6,940
Expenses of the Board of Directors	22,393
Contracted service fee	6,829,486
Total Operating Expenses	<u>6,858,819</u>
Operating Loss	<u>(1,060,611)</u>
Non-operating Revenue:	
Federal grants	1,103,116
State grants	9,709
Total Non-operating Revenue	<u>1,112,825</u>
Change in Net Position	52,214
Net Position – Beginning of Year	<u>73,046</u>
Net Position – End of Year	<u><u>\$125,260</u></u>

See accompanying notes to the basic financial statements.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Cash flows from Operating Activities:	
Cash received from State of Ohio	\$5,647,786
Cash received from food services	9,828
Cash received from other operating revenue	96,896
Cash paid on behalf of the Academy for goods and services	<u>(6,915,448)</u>
Net Cash used in Operating Activities	(1,160,938)
Cash Flows from Capital Financing Activities – Purchase of Capital Assets	(5,976)
Cash Flows from Non-capital Financing Activities:	
Federal grants received	1,172,240
State grants received	<u>9,624</u>
Net cash provided by Non-capital Financial Activities	<u>1,181,864</u>
Net Increase in Cash	14,950
Cash – Beginning of Year	<u>17,591</u>
Cash – End of Year	<u><u>\$32,541</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Activities:	
Operation loss	(\$1,060,611)
Depreciation	6,940
Changes in Assets and Liabilities:	
Change in intergovernmental receivables affecting operating revenue	(43,880)
Change in accounts payable	3,068
Change in unearned revenue	182
Change in contracted service fee payable	<u>(66,637)</u>
Net Cash Used for Operating Activities	<u><u>(\$1,160,938)</u></u>

See accompanying notes to the basic financial statements.

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**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 an approved charter received from Educational Service Center of Lake Erie West (ESCLEW or the "Sponsor"), which is responsible for oversight of the Academy's operations. The charter's term expires on June 30, 2016 and is subject to renewal. 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 nonprofit 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 (the "State"). 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 that 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 Agreement will continue until the termination or expiration of the charter contract, up to a maximum of five years, 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.

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

A. Basis of Presentation

The Academy's financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Cash Deposits

For cash management, all cash received by the Academy 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 position. Cash as of June 30, 2014, represents bank deposits, which are covered by federal depository insurance.

F. Capital Assets

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

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

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Contracted Service Fee Payable

Contracted service fee payable as of June 30, 2014, represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the agreement.

H. Unearned Revenue

Unearned revenue is reported in connection with funds that have been received for services which have not been performed and is therefore not yet earned.

I. Operating Revenues and Expenses

The Academy currently participates in the State Foundation Program, the State Intervention Services 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 Position

Net position represents the difference between assets and liabilities. Net position is 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, 2014, the Academy had \$67,977 in restricted net position related to the School Service Fund.

K. Budgetary Process

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

3. DEPOSITS AND INVESTMENTS

At fiscal year-end June 30, 2014, the Academy's bank balance was \$32,541. Based on the criteria described in GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, as of June 30, 2014, none of the bank balance was exposed to custodial risk as discussed below and all of the bank balance was covered by the Federal Depository Insurance Corporation.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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, 2014, 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 intergovernmental receivables at June 30, 2014, is as follows:

	Amounts
Due from State	\$17,699
Due from State – Special Ed	32,019
Title I	131,450
Title IIA	4,415
IDEA Preschool	
National School Lunch and Breakfast	14,861
Entry Level Teacher	85
Total Intergovernmental Receivables	\$244,418

5. CAPITAL ASSETS

Capital asset activity of the Academy's business type activities at June 30, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities – equipment	\$43,692	\$5,976		\$49,668
Total Capital Assets at historical Cost	43,692	5,976		49,668
Less accumulated depreciation – equipment	(14,449)	(6,940)		(21,389)
Total Accumulated Depreciation	(14,449)	(6,940)		(21,389)
Total Business-type Activities Capital Assets – Net	\$29,243	(\$964)	\$0	\$28,279

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 or the "System"), 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 the SERS website at www.ohsers.org under "Employers/Audit Resources."

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

6. PENSION PLANS (Continued)

Funding Policy — Plan members were required to contribute 10% of their annual covered salary and NHA was required to contribute at an actuarially determined rate. NHA's current rate is 14% 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, 2014, 13.05% and 0.05% of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The remaining 0.9% of the 14% employer contribution rate is allocated to the Health Care and Medicare B funds. 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% for plan members and 14% 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, 2014, 2013, and 2012, were \$39,091, \$45,524, and \$40,222, respectively; and 100% 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 the Ohio STRS website at www.strsoh.org under "Publications."

New members have a choice of three retirement plans, a defined benefit plan (the "DB Plan"), a defined contribution plan (the "DC plan") and a combined plan (the "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% 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 defined benefit portion of the Combined Plan payment is payable to a member on or after age 60; the defined contribution 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.

A DB Plan 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.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

6. PENSION PLANS (Continued)

Funding Policy — Plan members were required to contribute 11% of their annual covered salaries. NHA was required to contribute 14%; 13% was used to fund pension obligations and 1% was used for the health care stabilization fund. Contribution rates are established by the State Teachers Retirement Board (the “Retirement Board”), upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% 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 Ohio for the fiscal years ended June 30, 2014, 2013, and 2012, were \$263,196, \$273,519, and \$255,942 respectively; 100% was contributed for each fiscal year.

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 (the “Health Care Plan”) and a Medicare Part B plan (the “Medicare Part B Plan”). The Health Care Plan includes hospitalization and physicians’ fees through several types of plans including health maintenance organizations, preferred provider organizations, 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 2014 was \$104.90 for most participants 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.”

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% of covered payroll to a health care fund (the “Health Care Fund”). The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14% 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% of that employer’s SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

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, 2014, 2013, and 2012, were \$3,252, \$502, and \$3,441 respectively, 100% 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 Part B fund. For fiscal year 2014, the actuarially required allocation is 0.76% of covered payroll. NHA's contributions to the Medicare B fund for the fiscal years ended June 30, 2014, 2013, and 2012, were \$2,268, \$2,589, and \$3,522 respectively, 100% 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 postemployment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund.

NHA's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012, were \$20,246, \$21,040, and \$19,688, respectively; 100% was contributed for each fiscal year.

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 Citizens Insurance Company of America as follows:

Commercial General Liability	\$1,000,000 per occurrence \$3,000,000 in the aggregate with no deductible
Commercial Liability Umbrella	\$3,000,000 per occurrence \$3,000,000 in the aggregate with no deductible

There have been no significant reductions in insurance coverage during fiscal year 2014, and claims did not exceed coverage less retained risk deductible amounts during the past three fiscal years.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

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 full-time equivalent 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 Ohio Department of Education (ODE) has identified several community schools and/or STEM schools that made critical data errors between the June payment and the Final #1 payment. As a result, ODE will be running a Final #2 foundation report for community schools and STEM schools for fiscal year 2014. As of the date of this report, a final list of schools impacted and amounts are not yet available, but ODE believes this will result in receivables to the schools affected.

10. CONTRACTED SERVICE FEE

NHA incurred the following actual direct and indirect expenses on behalf of the Academy for the year ended June 30, 2014:

Contracted Service Fee:	
Salaries, wages and benefits	3,178,988
Professional and technical services	361,753
Contracted (trade) services	30,955
Property services	1,058,973
Books, periodicals, films	31,961
Supplies	184,195
Utilities	131,395
Food service	367,444
Travel and training	76,374
Purchases services	85,359
Equipment lease and purchases	124,700
Field trips and student activities	93,805
Insurance and property taxes	24,275
Total Direct Costs	<u>5,750,177</u>
Indirect Costs	<u>1,079,309</u>
Total	<u><u>\$6,829,486</u></u>

NHA charges expenses benefiting more than one school (i.e., indirect 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.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

11. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with the ESCLEW. The sponsorship agreement provides that ESCLEW receives 1.5% of State Foundation funds received by the Academy from the State. This amounted to \$85,359 for fiscal year 2014.

12. OPERATING LEASE

The Academy has entered into a sublease agreement with NHA for a facility to house the Academy. The lease term is from July 1, 2013 through June 30, 2014. Annual rental payments required by the lease are \$753,756 payable in twelve monthly payments of \$62,813. This lease is automatically renewed on a year-to-year basis unless a notice of non-renewal is provided by either the Academy or NHA.

The Academy subsequently amended and renewed the sublease with NHA for the period of July 1, 2014 through June 30, 2015, at the same rental rate.

13. RELATED PARTY

The Academy rents its facilities from NHA, the Academy's management company. Total rental payments in fiscal year 2014 were \$753,756. See Note 12 for additional information.

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**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture					
<i>Passed through the Ohio Department of Education</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$82,812		\$82,338	
National School Lunch Program	10.555	284,172	\$24,451	283,501	\$24,451
Total Child Nutrition Cluster		<u>366,984</u>	<u>24,451</u>	<u>365,839</u>	<u>24,451</u>
Total U.S. Department of Agriculture		366,984	24,451	365,839	24,451
U.S. Department of Education					
<i>Passed through the Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	545,352		473,320	
Improving Teacher Quality State Grants	84.367	12,463		12,463	
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act	84.395	57,477		59,172	
Special Education Cluster:					
Special Education_Grants to States	84.027	181,081		135,205	
Special Education_Preschool Grants	84.173	782		782	
Total Special Education Cluster		<u>181,863</u>		<u>135,987</u>	
Total U.S. Department of Education		<u>797,155</u>		<u>680,942</u>	
Total Federal Financial Assistance		<u>\$1,164,139</u>	<u>\$24,451</u>	<u>\$1,046,781</u>	<u>\$24,451</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

The Academy reports commodities consumed on the Schedule at the fair value. The Academy 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*

Emerson Academy of Dayton
Montgomery County
501 Hickory Street
Dayton, Ohio 45410

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 Emerson Academy of Dayton, Montgomery County, (the Academy) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 9, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy'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 Academy's internal control. Accordingly, we have not opined on it.

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 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 Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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*.

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 Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication 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

February 9, 2015



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

Emerson Academy of Dayton
Montgomery County
501 Hickory Street
Dayton, Ohio 45410

To the Board of Directors:

Report on Compliance for Each Major Federal Program

We have audited the Emerson Academy of Dayton's (the Academy) 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 Emerson Academy of Dayton's major federal programs for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs.

Management's Responsibility

The Academy'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 Academy's compliance for each of the Academy'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 Academy'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 Academy's major programs. However, our audit does not provide a legal determination of the Academy's compliance.

Basis for Qualified Opinion on Child Nutrition Cluster

As described in finding 2014-001 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding allowable costs / cost principles applicable to its Child Nutrition Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the Academy to comply with requirements applicable to this program.

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 Emerson Academy of Dayton 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, 2014.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Emerson Academy of Dayton 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, 2014.

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

Report on Internal Control Over Compliance

The Academy'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 Academy'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 Academy'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 compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

Emerson Academy of Dayton
Montgomery County
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and other Matters
Required by *Government Auditing Standards*
Page 3

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

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

^


Dave Yost
Auditor of State
Columbus, Ohio

February 9, 2015

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**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(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)?	No
(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	Qualified – Child Nutrition Cluster Unmodified – Title 1 Grants to Local Educational Agencies
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster CFDA # 10.553 – School Breakfast Program CFDA # 10.555 – National School Lunch Program CFDA # 84.010 – Title 1 Grants to Local Educational Agencies
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2014-001
CFDA Title and Number	10.553 – School Breakfast Program 10.555 – National School Lunch Program
Federal Award Number / Year	2014
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

MATERIAL WEAKNESSES, NONCOMPLIANCE AND QUESTIONED COST – ALLOWABLE COST/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 2014-001
(Continued)**

The Academy 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 2014 the School paid its management company, National Heritage Academies (NHA), \$12,064 for overhead expenses.

The Academy 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 Academy 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 2014 the School paid \$10,500 to CDC for rent of the lunch room equipment.

Finally, the Academy 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 2014 the School paid \$19,450 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 \$42,014 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.

Officials' Response:

See Corrective Action plan on page 33.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	2 CFR Part 225, Appendix A paragraph C.1 and F.1 & 34 CFR Section 80.36(b)(3) – Unallowable costs under Child Nutrition Cluster Program	No	Repeated as Finding 2014-001.

**EMERSON ACADEMY OF DAYTON
MONTGOMERY COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2014**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2014-001	<p>Through its service agreement with NHA, the Academy 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 Academy. Specifically, equipment rental, other facility costs (noted above), and processing of the Academy's FRL applications associated with the Academy's food service program are considered direct costs as they are calculated using data criteria specific to the Academy and its food service program (i.e. square footage, number of employees, number of FRL applications, etc...). However, we are currently working with ODE to finalize an approved indirect cost recovery plan (the "plan") that will provide an indirect cost rate for the Academy's food service program. Our intention is to utilize the approved plan for the Academy's fiscal year ending June 30, 2016 to more accurately calculate food service program related costs using a methodology approved by ODE.</p>	June 30, 2016	Ann Strahota, Audit Manager, National Heritage Academies, Inc.

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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
MARCH 31, 2015**