



Dave Yost • Auditor of State

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of North Dayton School of Discovery, 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 the North Dayton School of Discovery, 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.

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

Dave Yost
Auditor of State
Columbus, Ohio

February 9, 2015

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**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

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

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, 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 \$281,751, total liabilities were \$162,746, and total net position was \$119,005.

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.

**NORTH DAYTON SCHOOL OF DISCOVERY
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	\$265,214	\$359,040
Capital assets, net of accumulated depreciation	16,537	11,919
Total Assets	<u>281,751</u>	<u>370,959</u>
Liabilities – current	<u>162,746</u>	<u>288,950</u>
Net Position:		
Net investment in capital assets	16,537	11,919
Restricted – School Service Fund	51,119	19,284
Unrestricted	51,349	50,806
Total net Position	<u>\$119,005</u>	<u>\$82,009</u>

The unrestricted net position represents the accumulated results of the Academy's operations to date. This net position 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	\$3,848,668	\$3,734,593
Food services	9,083	8,223
Other revenues	67,029	5,590
Total operating revenues	<u>3,924,780</u>	<u>3,748,406</u>
Operating expenses:		
Depreciation	3,263	1,369
Expenses of the Board of Directors	34,457	
Contracted service fee	5,544,628	5,688,585
Total operating expenses	<u>5,582,348</u>	<u>5,689,954</u>
Operating loss	(1,657,568)	(1,941,548)
Non-operating revenues:		
Federal grants	862,822	969,994
State grants	8,614	13,473
Private sources – NHA	823,128	977,210
Total Non-operating revenues	<u>1,694,564</u>	<u>1,960,677</u>
Change in net position	<u>\$36,996</u>	<u>\$19,129</u>

**NORTH DAYTON SCHOOL OF DISCOVERY
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 \$5,582,348. 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. *Non-Operating Revenues — Private sources — NHA* represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

The Academy experienced an increase in net position of \$36,996 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 \$16,537 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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**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

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

Current Assets:	
Cash	\$51,349
Intergovernmental receivable	213,865
Total Current Assets	<u>265,214</u>
Non-Current Assets:	
Capital assets	39,873
Less accumulated depreciation	<u>(23,336)</u>
Total Non-Current Assets	<u>16,537</u>
Total Assets	281,751
Liabilities:	
Unearned revenue	510
Contracted service fee payable	<u>162,236</u>
Total Liabilities	<u>162,746</u>
Net Position:	
Net investment in capital assets	16,537
Restricted – School Service Fund	51,119
Unrestricted	<u>51,349</u>
Total Net Position	<u>\$119,005</u>

See the accompanying notes to the basic financial statements.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

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

Operating Revenues:	
Foundation payments	\$3,848,668
Food services	9,083
Other revenues	67,029
Total Operating Revenues	<u>3,924,780</u>
Operating Expenses:	
Depreciation	3,263
Expenses of the Board of Directors	34,457
Contracted service fee	5,544,628
Total Operating Expenses	<u>5,582,348</u>
Operating Loss	<u>(1,657,568)</u>
Non-Operating Revenues:	
Federal grants	862,822
State grants	8,614
Private sources – NHA	823,128
Total Non-Operating Revenues	<u>1,694,564</u>
Change in Net Position	36,996
Net Position – Beginning of year	<u>82,009</u>
Net Position – End of year	<u>\$119,005</u>

See the accompanying notes to the basic financial statements.

**NORTH DAYTON SCHOOL OF DISCOVERY
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	\$3,834,106
Cash received from food services	8,797
Cash received from other operating revenue	67,029
Cash paid on behalf of the Academy for good and services	<u>(4,880,575)</u>
Net cash used in operating activities	<u>(970,643)</u>
 Cash Flows from Capital Financing Activities:	
Purchase of capital assets	<u>(7,881)</u>
 Cash Flows from Non-Capital Financing Activities:	
Federal grants received	970,453
State grants received	<u>8,614</u>
Net cash provided by Non-Capital Financing Activities	<u>979,067</u>
 Net Increase in Cash	 543
 Cash – Beginning of year	 <u>50,806</u>
 Cash – End of year	 \$51,349
 Reconciliation of Operating Loss to Net Cash used for Operating Activities:	
Operating loss	(\$1,657,568)
Support from private sources – NHA	823,128
Depreciation	3,263
 Changes in Assets and Liabilities:	
Change in intergovernmental receivables affecting operating revenue	(14,562)
Change in deferred revenue	(286)
Change in contracted service fee payable	<u>(124,618)</u>
 Net Cash used for Operating Activities	 (\$970,643)
 Non-Cash Activity:	
Support from private sources – NHA	<u>\$823,128</u>

See the 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, 2014**

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 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, 2015 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. *Non-Operating Revenues — Private sources — NHA* represent a contribution granted by NHA for the excess of Academy expenditures over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC 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 net 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.

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

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC 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 \$51,119 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 \$51,361. 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.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC 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	\$5,422
Due from State – Special Ed	10,454
Title I	138,430
Title IIA	5,468
IDEA Part B	387
Race to the Top ARRA	41,727
National School Lunch and Breakfast	11,861
Total intergovernmental receivables	\$213,865

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	\$169,784	\$7,881	\$137,792	\$39,873
Total capital assets at historical cost	169,784	7,881	137,792	39,873
Less accumulated depreciation – equipment	(157,865)	(3,263)	(137,792)	(23,336)
Total accumulated depreciation	(157,865)	(3,263)	(137,792)	(23,336)
Total business-type activities capital assets – net	\$11,929	\$4,618	\$0	\$16,537

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."

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC 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 \$24,638, \$23,487, and \$21,594, 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.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC 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 \$214,490, \$215,964, and \$216,196 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.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC 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 \$1,474, \$179, and \$1,092 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 \$1,429, \$918, and \$1,135 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 \$16,499, \$16,613, and \$16,630, 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.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC 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. RELATED PARTY

The Board Members for the Academy also service as the Board members for Pathway School of Discovery; both academies are managed by NHA.

The Academy rents its facilities from NHA, the Academy's management company. Total rental payments in fiscal year 2014 were \$859,520. See Note 13 for additional information.

11. 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	\$2,626,038
Professional and technical services	403,564
Contracted (trade) services	35,055
Property services	1,045,959
Books, periodicals, films	35,142
Supplies	189,675
Utilities	52,253
Food service	324,437
Travel and training	59,329
Purchases services	76,973
Equipment lease and purchases	108,810
Field trips and student activities	51,777
Insurance and property taxes	18,767
Total Direct Costs	5,027,779
Indirect Costs	516,849
Total	\$5,544,628

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

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

11. CONTRACTED SERVICE FEE (Continued)

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.

12. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with the ESCLEW. The sponsorship agreement provides that ESCLEW receives 2% of State Foundation funds received by the Academy from the State. This amounted to \$76,973 for fiscal year 2014.

13. 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 \$859,520 payable in twelve monthly payments of \$71,627. 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.

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**NORTH DAYTON SCHOOL OF DISCOVERY
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	\$98,845		\$99,249	
National School Lunch Program	10.555	221,422	\$18,227	222,499	\$18,227
Total Child Nutrition Cluster		<u>320,267</u>	<u>18,227</u>	<u>321,748</u>	<u>18,227</u>
Total U.S. Department of Agriculture		320,267	18,227	321,748	18,227
U.S. Department of Education					
<i>Passed through the Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	438,370		428,157	
Improving Teacher Quality State Grants	84.367	6,808		9,897	
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act	84.395	61,266		62,499	
Special Education_Grants to States	84.027	136,601		98,118	
Total U.S. Department of Education		<u>643,045</u>		<u>598,671</u>	
Total Federal Financial Assistance		<u>\$963,312</u>	<u>\$18,227</u>	<u>\$920,419</u>	<u>\$18,227</u>

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

**NORTH DAYTON SCHOOL OF DISCOVERY
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 North Dayton School of Discovery (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*

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, 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 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.

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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

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 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 North Dayton School of Discovery'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.

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www.ohioauditor.gov

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, 2014.

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, 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.

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.

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

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**NORTH DAYTON SCHOOL OF DISCOVERY
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 Academy. 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 Academy and CDC, to document the amount of rent or that the lease was indeed an arm's length transaction. For fiscal year 2014 the Academy paid \$8,900 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 \$20,060 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 \$41,024 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 35.

**NORTH DAYTON SCHOOL OF DISCOVERY
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

**NORTH DAYTON SCHOOL OF DISCOVERY
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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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
MARCH 31, 2015**