



Mary Taylor, CPA
Auditor of State

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets As of June 30, 2006 and 2005.....	5
Statement of Revenues, Expenses, and Change in Net Assets For the Fiscal Years Ended June 30, 2006 and 2005	6
Statement of Cash Flows For the Fiscal Years Ended June 30, 2006 and 2005	7
Notes to the Basic Financial Statements	9
Schedule of Federal Awards Receipts and Expenditures For the Fiscal Year Ended June 30, 2006	19
Schedule of Federal Awards Receipts and Expenditures For the Fiscal Year Ended June 30, 2005	20
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21
Independent Accountants' Report on Compliance with Requirements Applicable To Major Federal Programs and on Internal Control Over Compliance In Accordance With OMB A-133	23
Schedule of Findings and Questioned Costs.....	25
Schedule of Prior Audit Findings.....	30

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the basic financial statements of North Dayton School of Discovery, Montgomery County, (the School), as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the contract service fees incurred by the School during fiscal years 2006 and 2005 which totaled \$5,336,185 and \$4,811,283, respectively, as indicated in Note 9. Other auditors audited these amounts and have furnished their report thereon to us and we base our opinion, insofar as it relates to the amounts included in Note 9, on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of North Dayton School of Discovery, Montgomery County, as of June 30, 2006 and 2005, and the changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2008, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements. The schedules of federal awards receipts and expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and are not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedules to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 8, 2008

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED**

This section of the annual financial report for North Dayton School of Discovery (the "School") provides an overview of the School's financial activities for the fiscal years ended June 30, 2006 and 2005. It should be read in conjunction with the financial statements, which immediately follow this section.

Using this Annual Report — This annual report consists of a series of financial statements and notes to those statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows, provide information about the activities of the School as a whole (School-wide financial statements).

School-wide Financial Statements —The School-wide financial statements include all assets and liabilities and results of operations using the accrual basis of accounting, which is similar to the accounting used by most private sector companies.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows, report the governmental activities for the School, which encompass all the School's services, including instruction, support services and food services. State aid (based on student count) and state and federal grants finance most of these activities.

The School has entered into a management 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 management agreement, NHA also provides the facility in which the School operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the School from all revenue sources.

The table below provides a summary of the School's net assets as of June 30 for the past three fiscal years:

	2006	2005	2004
Assets – current	\$334,744	\$235,753	\$515,525
Capital Assets	<u>102,661</u>	<u>162,279</u>	<u>179,415</u>
Total assets	437,405	398,032	694,940
Liabilities - current	<u>300,563</u>	<u>189,988</u>	<u>484,422</u>
Net assets			
Invested in Capital Assets	102,661	162,279	179,415
Unrestricted	<u>34,181</u>	<u>45,765</u>	<u>31,103</u>
Total Net Assets	<u><u>\$136,842</u></u>	<u><u>\$208,044</u></u>	<u><u>\$210,518</u></u>

The unrestricted net assets of governmental activities represent the accumulated results to date of operations. The results of the current year operations for the School as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED
(Continued)**

The table below provides a summary of the School's change in net assets for the years ended June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues:			
State Aid	\$4,301,990	\$3,770,644	\$2,954,571
Other State Sources	243,447	166,066	72,462
Local Sources	39,156	35,621	33,843
Total Operating Revenues	<u>4,584,593</u>	<u>3,972,331</u>	<u>3,060,876</u>
Operating Expenses			
Contracted Service Fee	5,336,185	4,811,283	3,904,376
Depreciation Expense	59,618	59,363	21,481
Total Operating Expense	<u>5,395,803</u>	<u>4,870,646</u>	<u>3,925,857</u>
Operating Loss	(811,210)	(898,315)	(864,981)
Non-operating Revenues			
Federal and State Grants	740,008	658,320	747,055
Private Sources - National Heritage Academies		237,521	313,729
Total Non operating Revenues	<u>740,008</u>	<u>895,841</u>	<u>1,060,784</u>
Change in Net Assets	<u>(\$71,202)</u>	<u>(\$2,474)</u>	<u>\$195,803</u>

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of the contracted service fee was \$5,336,185 for 2006 and \$4,811,283 for 2005. These activities were primarily funded by the School's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. Non-operating revenues – Private sources – National Heritage Academies, Inc. represent a contribution granted by NHA for the excess of School expenses over public revenues available.

The School experienced a decrease in net assets of \$71,202 in 2006 and \$2,474 in 2005.

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

General Economic Factors — The School 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 School in fiscal year 2007.

Contacting the School's Financial Management — The financial report is designed to provide users of the report with a general overview of the School's finances and to demonstrate the School'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.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006 AND 2005**

	2006	2005
Assets		
Current Assets		
Cash	\$41,002	\$51,787
Due from Other Governments	293,742	183,966
Total Current Assets	334,744	235,753
Non-current Assets		
Capital Assets (Net of accumulated depreciation)	102,661	162,279
Total Assets	437,405	398,032
Liabilities		
Deferred Revenue	190,803	4,799
Due to National Heritage Academies, Inc.	109,760	185,189
Total Liabilities	300,563	189,988
Net Assets:		
Invested in Capital Assets	102,661	162,279
Unrestricted for:		
Board Expenses	34,181	45,765
Total Net Assets	\$136,842	\$208,044

See accompanying notes to basic financial statements.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
Operating Revenues:		
State aid	\$4,301,990	\$3,770,644
Other state sources	243,447	166,066
Local sources	39,156	35,621
Total operating revenues	4,584,593	3,972,331
Operating Expenses:		
Contracted service fee	5,336,185	4,811,283
Depreciation Expense	59,618	59,363
Total operating expenses	5,395,803	4,870,646
Operating Loss	(811,210)	(898,315)
Non-Operating Revenue:		
Federal and state grants	740,008	658,320
Private Sources - National Heritage Academies, Inc.		237,521
Total Non-operating revenues	740,008	895,841
Change in Net Assets	(71,202)	(2,474)
Net Assets - Beginning of Year	208,044	210,518
Net Assets - End of Year	\$136,842	\$208,044

See accompanying notes to the basic financial statements.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
Cash Flows From Operating Activities:		
Cash received from state sources	\$4,749,514	\$4,018,690
Cash received from local sources	39,156	35,621
Cash paid on behalf of the Academy for goods and services	(5,411,614)	(5,110,516)
Net cash used in operating activities	(622,944)	(1,056,205)
 Cash Flows From Non-Capital Financing Activities:		
Federal and state grants received	612,159	882,523
Support from private sources - National Heritage Academies, Inc.		198,312
Net cash from noncapital financing activities	612,159	1,080,835
 Cash Flows From Capital and Related Financing:		
Payments for capital acquisitions		(42,227)
 Net Decrease in Cash	(10,785)	(17,597)
 Cash at Beginning of Year	51,787	69,384
 Cash at End of Year	41,002	51,787
 Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	(811,210)	(898,315)
 Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	59,618	59,363
Changes in assets and liabilities:		
Increase in Due from Governmental Revenue Sources	13,274	81,980
Increase in Deferred Revenue	190,803	
Decrease in Due to National Heritage Academies, Inc.	(75,429)	(299,233)
 Net Cash Used in Operating Activities	(\$622,944)	(\$1,056,205)

See accompanying notes to the basic financial statements.

This page intentionally left blank.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

1. NATURE OF OPERATIONS

North Dayton School of Discovery (the "School") is an Ohio Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The School operates under an approved charter received from Lucas County Educational Service Center ("LCESC"), which is responsible for oversight of the School's operations. The charter will automatically renew on a year-to-year basis, unless at least 90 days written notice is given by either the School or LCESC. The School 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 School was established and is operated as Ohio nonprofit public benefit corporation under Chapter 1702 of the Ohio Revised Code. The School is a community school as defined in Chapter 3314 of the Ohio Revised Code and is part of the State of Ohio's program of public education. Because the School's income is derived from the exercise of an essential governmental function and accrues to the State of Ohio, it is excludible from gross income for federal income tax purposes under Internal Revenue Code Section 115(1). The School is eligible to receive charitable contributions deductible under Internal Revenue Code Section 170(c)(1).

The School's primary source of revenue is provided by the State of Ohio and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and was funded through payments from July through June for each fiscal year.

The Board of Directors of the School has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the management agreement, NHA also provides the facility in which the School operates. The agreement will automatically renew on a year-to-year basis, unless at least 90 days written notice of intent to terminate is given by either the School 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 School from all revenue sources. NHA provides a spending account to the Board of Directors for discretionary expenditures on an annual basis. Non-operating revenues – private sources – National Heritage Academies, Inc. represent a contribution granted by NHA for the excess of School expenditures over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School conform to accounting principles generally accepted in the United States of America applicable to governmental nonprofit organizations. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As permitted by generally accepted accounting principles, the School has elected to apply only applicable Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989. The School does not apply FASB statements or interpretations issued after November 1989.

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School reports according to enterprise accounting. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may also be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

C. Budgetary Highlights

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

D. Estimates

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

E. Cash

Cash as of June 30, 2006 and 2005 represents bank deposits, which are covered by federal depository insurance. Accordingly, there are no investments which are required to be categorized according to risk.

F. Capital Assets

As of the end of the fiscal year, the School had invested in capital assets purchased through the Charter School Grant, primarily equipment. Capital assets are substantially provided as part of the management agreement with NHA.

Capital assets, which include equipment and computers, are reported in the Statement of Net Assets. Capital assets are defined by the School as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost. Equipment and computers are depreciated using the straight-line method over the following useful lives:

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furniture and other equipment	5-20 years
Computers	3-5 years

G. Deferred Revenues

Deferred revenues as of June 30, 2006 and 2005 consist of funds received for services which have not been performed.

H. Due to National Heritage Academies, Inc.

This amount consists of payments due to National Heritage Academies, Inc. for management services rendered in fiscal years 2006 and 2005.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. There were no net assets restricted by enabling legislation at June 30, 2006 or 2005.

J. Intergovernmental Revenues

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

Certain 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 School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in various federal and state programs through the Ohio Department of Education. The programs the School participated in during the fiscal periods of 2006 and 2005, of which they were still owed for at June 30, 2006 and 2005, include Title I, Title IIA, Title IID, Title V, and IDEA Part B. The remaining Charter School Grant revenue was received during 2005. Revenue to be received from these programs is recognized as non-operating revenue in the accompanying financial statements.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits by category of risk as defined in GASB Statement Number 3 *"Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."*

Deposits: At June 30, 2006 and 2005, the carrying amount of the Schools' deposits and the bank balance was \$41,002 and \$51,787, respectively, which was covered by federal depository insurance.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Continued)**

6. RISK MANAGEMENT

The School is exposed to various risks of loss related to general liability. Commercial insurance policies that cover certain risks of loss have been obtained through Indiana Insurance Company. The School has contracted for the following insurance coverages:

Type of Coverage	June 30, 2006	Deductible	June 30, 2005	Deductible
General Liability				
Each Occurrence	\$1,000,000	\$0	\$1,000,000	\$0
Aggregate	5,000,000	0	3,000,000	0
School Leaders Errors and Omissions				
Each Occurrence	1,000,000		1,000,000	
Aggregate	3,000,000	1,000	1,000,000	5,000
Commercial Umbrella Liability				
Each Occurrence and Aggregate	1,000,000	0	2,000,000	0
Sexual Misconduct and Molestation Liability				
Each Occurrence and Aggregate	1,000,000	0	1,000,000	0
Commercial Property Coverage	25,000	1,000	25,000	1,000
Public Employee Dishonesty Coverage	500,000	500	0	0
Employers Stop Gap Liability Coverage				
Each Occurrence	1,000,000	0	1,000,000	
Aggregate	5,000,000	0	2,000,000	0
Commercial Auto Coverage	1,000,000	0	1,000,000	0

There have been no significant reductions in insurance coverage during fiscal year 2006 and 2005, and claims did not exceed coverage during the past two fiscal years.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

NHA, on behalf of employees at the School, contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and NHA is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of NHA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal years 2006 and 2005, 10.58 and 10.57 percent, respectively, of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. NHA's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$32,524, \$32,438, and \$19,289, respectively; 100 percent has been contributed for all years.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006 and 2005, plan members were required to contribute 10 percent of their annual covered salaries. NHA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NHA's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$196,754, \$151,818, and \$119,226, respectively; 100 percent has been contributed for all years. Contributions to the DC and Combined Plans for fiscal year 2006 were \$3,312 made by NHA and \$24,384 made by the plan members. Contributions to the DC and Combined Plans for fiscal year 2005 were \$13,220 made by NHA and \$21,191 made by the plan members.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Social Security System

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

8. POST-EMPLOYMENT BENEFITS

NHA, on behalf of employees at the School, provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006 and 2005, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For NHA, this amount equaled \$15,135 and \$11,678 for fiscal years 2006 and 2005, respectively.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. The amount contributed to fund health care benefits, including the surcharge, during the 2006 and 2005 fiscal years equaled \$15,122 and \$15,193, respectively.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

9. CONTRACTED SERVICE FEE

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

Instruction:	<u>2006</u>	<u>2005</u>
Basic instruction	\$1,919,312	\$1,624,145
Added needs	362,080	302,615
Special education	208,667	182,311
Support services:		
Pupil services	100,009	71,790
Instructional staff	176,810	161,996
Board of education	79,004	37,955
Executive administration	265,215	280,694
State and federal relations	35,054	-
Office of the Principal	291,371	315,498
Business support services	71,994	43,751
Operations and maintenance	1,098,412	1,267,118
Central services	341,157	175,303
Food services	363,911	348,107
Sub-total	<u>5,312,996</u>	<u>4,811,283</u>
Unexpended resources at June 30, 2006	23,189	
Total contracted service fee	<u><u>\$5,336,185</u></u>	<u><u>\$4,811,283</u></u>

10. OPERATING LEASE

The School has entered into a sub-lease for classroom facilities with National Heritage Academies, Inc. located at 3901 Turner Road, Dayton, Ohio, 45415. The terms of the lease are for one year commencing on July 1, and ending on June 30. For fiscal year 2006, rental amounts for the lease were \$797,440 annually, payable in equal monthly installments of \$66,453 each. For fiscal year 2005, the rental amounts for the lease were \$792,320 annually, payable in equal monthly installments of \$66,027 each. In addition, the lease terms required the School to be responsible for all costs associated with the facilities including property taxes and maintenance costs.

11. RELATED PARTIES

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

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Continued)**

12. CONTINGENCIES

A. Grants

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

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in the State funding being adjusted. The School does not anticipate any material adjustments to State funding for fiscal year 2007, as a result of such a review.

C. Litigation

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314 violates both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on North Dayton School of Discovery cannot presently be determined.

This page intentionally left blank.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
(Passed through Ohio Department of Education)				
Nutrition Cluster:				
School Breakfast Program	061950(2005-2006)	10.553	\$65,899	\$65,899
National School Lunch Program	041950 (2005-2006)	10.555	98,096	98,096
	041950 (2004-2005)		48,466	48,466
Total National School Lunch Program			<u>146,562</u>	<u>146,562</u>
Total U.S. Department of Agriculture-Nutrition Cluster			212,461	212,461
U.S. DEPARTMENT OF EDUCATION				
(Passed through Ohio Department of Education)				
Title I Grants to Local Educational Agencies	143529-C1S1-2006	84.010	266,932	359,308
	143529-C1S1-2005		57,859	43,830
Total Title 1 Grants			<u>324,791</u>	<u>403,138</u>
Special Education Cluster:				
Special Education - Grants to States	143529-6BSA-2006	84.027	34,383	59,645
	143529-6BSA-2005		23,750	
Total Special Education Grants			<u>58,133</u>	<u>59,645</u>
Special Education - Preschool Grants	143529 - 2005	84.173	893	
Total Special Education Cluster			<u>59,026</u>	<u>59,645</u>
State Grants for Innovative Programs	143529-C2S1-2006	84.298	622	2,898
	143529-C2S1-2005		849	583
Total State Grants for Innovative Programs			<u>1,471</u>	<u>3,481</u>
Education Technology State Grants	143529-C2S1-2006	84.318	4,969	8,006
	143529-C2S1-2005		1,752	
Total Education Technology State Grants			<u>6,721</u>	<u>8,006</u>
Improving Teacher Quality State Grants	143529-TRS1-2006	84.367	2,407	13,730
	143529-TRS1-2005		790	
Total Improving Teacher Quality State Grants			<u>3,197</u>	<u>13,730</u>
Total U.S. Department of Education			<u>395,206</u>	<u>488,000</u>
Total Federal Assistance			<u>\$607,667</u>	<u>\$700,461</u>

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
(Passed through Ohio Department of Education)				
Nutrition Cluster				
School Breakfast Program	041950 (2004-2005)	10.553	\$68,567	\$68,567
National School Lunch Program	041950 (2004-2005)	10.555	88,401	88,401
	041950 (2003-2004)		27,819	27,819
Total National School Lunch Program			<u>116,220</u>	<u>116,220</u>
Total U.S. Department of Agriculture-Nutrition Cluster			184,787	184,787
U.S. DEPARTMENT OF EDUCATION				
(Passed through Ohio Department of Education)				
Title I Grants to Local Educational Agencies	143529-C1S1-2005	84.010	287,000	301,029
	143529-C1S1-2004		79,974	40,257
Total Title 1 Grants			<u>366,974</u>	<u>341,286</u>
Special Education Cluster:				
Special Education - Grants to States	143529-6BSA-2005	84.027	55,024	78,774
	143529-6BSA-2004		3,946	
Total Special Education Grants			<u>58,970</u>	<u>78,774</u>
Special Education - Preschool Grants	143529 - 2005	84.173	99	992
Total Special Education Cluster			<u>59,069</u>	<u>79,766</u>
Charter Schools	143529-CHSI-04	84.282	250,000	133,072
State Grants for Innovative Programs	143529-C2S1-2005	84.298	230	496
	143529-C2S1-2004		832	
Total State Grants for Innovative Programs			<u>1,062</u>	<u>496</u>
Education Technology State Grants	143529-C2S1-2005	84.318	2,100	3,852
	143529-C2S1-2004		637	
Total Education Technology State Grants			<u>2,737</u>	<u>3,852</u>
Improving Teacher Quality State Grants	143529-TRS1-2005	84.367	9,084	9,874
	143529-TRS1-2004		3,410	
Total Improving Teacher Quality State Grants			<u>12,494</u>	<u>9,874</u>
Total U.S. Department of Education			<u>692,336</u>	<u>568,346</u>
Total Federal Assistance			<u>\$877,123</u>	<u>\$753,133</u>

The schedule of federal award receipts and expenditures is presented on the cash basis of accounting.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' 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 the financial statements of the business-type activities of the North Dayton School of Discovery, Montgomery County, (the School), as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated February 8, 2008, which indicated that the amounts presented in Note 9 were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

In a separate letter to the School's management dated February 8, 2008, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion 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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-002. In a separate letter to the School's management dated February 8, 2008, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management, Board of Directors, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 8, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Directors:

Compliance

We have audited the compliance of the North Dayton School of Discovery, Montgomery County, (the School), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the years ended June 30, 2006 and 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in items 2006-001 through 2006-003 in the accompanying schedule of findings and questioned costs, the School did not comply with the requirements regarding reporting and period of availability applying to its Nutrition Cluster Grant and the Title I Grant to Local Educational Agencies, respectively. Compliance with those requirements is necessary, in our opinion for the School to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the School complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the years ended June 30, 2006 and 2005. In a separate letter to the School's management dated February 8, 2008, we reported other matters related to federal noncompliance not requiring inclusion in this report.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-001 and 2006-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable condition described above are material weaknesses.

We intend this report solely for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 8, 2008

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 - .505
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

1. SUMMARY OF AUDITOR'S RESULTS

		2006	2005
(d)(1)(i)	Type of Financial Statement Opinion	Unqualified	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes	Yes
(d)(1)(v)	Type of Major Programs - Compliance Opinion	qualified	qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes	Yes
(d)(1)(vii)	Major Programs (list):	- Title 1 – CFDA# 84.010	- Title 1 – CFDA# 84.010 - Child Nutrition Cluster CFDA #'s 10.553, 10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$ 300,000 Type B: all others	Type A > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No	No

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

Finding 2006-003 reported under Federal Awards is also considered a reportable condition under generally accepted government auditing standards.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2006-001
CFDA Title and Number	Title I - CFDA #84.010 –
Federal Award Number / Year	C1S1 – 2005
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Reportable Condition/Non Compliance/Questioned Costs – Period of Availability

34 CFR Subpart C, Section 80.23 states that where a funding period is specified, a recipient may charge to the grant only costs resulting from obligations incurred during the funding period unless carryover of unobligated balances is permitted, in which case the carryover balance may be charged for costs resulting from obligations of the subsequent funding period. Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

Obligations must be liquidated prior to submitting the Final Expenditure Report, which must be filed no later than September 30 which is 90 days after the end of the project period of June 30th. For the fiscal year 2005 Title I Grant, a \$10,838.64 expenditure was obligated August 26, 2005 and paid October 5, 2005 (in fiscal year 2006) which is subsequent to both the funding period and the liquidation date. This amount was also included in the Final Expenditure Report for fiscal year 2005. Based on the above, \$10,838.64 are considered to be questioned costs.

Failure to comply with grant requirements could lead to unallowed costs or a loss in grant funding. Grant award letters and grant agreements should be carefully reviewed to ensure that grant requirements are understood and met.

Officials' Response:

The School was given an extension on the Title I grant through August 31, 2005 to obligate funds. The auditor is correct however that an expenditure of \$10,838.64 was obligated prior to August 31, 2005, but not liquidated until October 5, 2005. This would have been an allowable expenditure under the fiscal 2006 Title I grant, but not the fiscal 2005 grant due to the late liquidation date.

In reviewing the School's detailed expenditures, there were other expenditures which should have been included in the fiscal 2005 Title I grant. Management has supplied the detail of these expenditures to the auditor. Accordingly we believe that the \$10,838.64 should not result in a questioned cost.

Further, procedures have been implemented to ensure that liquidation dates are carefully reviewed prior to preparing and submitting the final expenditure report.

Finding Number	2006-002
CFDA Title and Number	Child Nutrition Cluster - CFDA #'s 10.553, 10.555, 10.556, 10.559
Federal Award Number / Year	School Breakfast Program 2004-2005 National School Lunch Program 2003-2004 and 2004-2005
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	N/A

Material Noncompliance – Records Destruction/Reporting

34 CFR 80.37 requires states to ensure that sub grantees follow Federal and state laws which includes a provision for compliance with **34 CFR 80.42** that addresses record retention. **Ohio Revised Code Section 149.351(A)** establishes guidelines against the destruction or damage of records. All records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

For the fiscal year 2005, Nutrition Cluster program tested, the School utilized an automated system to track student meals served on a daily basis. Daily and monthly system-generated reports showing the total number of meals served and broken down by the type of meal were generated but were not retained by the School; therefore, the usual support had been destroyed and did not exist to provide evidence for the number and type of meals served on a daily basis that is submitted for reimbursement for those meals. The only system generated report available was a 1200 page student account journal showing the activity for each student for each day of the school year. The management company used this journal to prepare a spreadsheet to generate a calculation of the total free and reduced meals served during the year for audit.

The failure to retain the required records could result in questioned costs on federal programs, possible opinion qualification on the financial statements and increased audit costs. The lack of the retention of the required records resulted in the necessity to perform alternate audit procedures to determine the reliability of the information submitted for meal reimbursement.

A policy should be adopted establishing procedures on the retention of records generated and the manner in which they are to be maintained. Daily meal reports should always be maintained to support the requests for reimbursement. A request for destruction of records should be submitted to the Records Commission to address the appropriate procedures for destruction.

Officials' Response:

The Academy did maintain and provide the auditor with copies of the monthly claim reports. The Academy maintains the detailed lunch activity that supports the monthly claim reports in an automated system. At the end of each fiscal year, the detail is archived in a PDF format by student showing the meals served by day and how those meals were funded. While the report contains all of the information necessary to support the monthly claim reports, it is somewhat cumbersome to utilize. At the auditors' request the information was converted to a spreadsheet format with drop down options to sort by student or by day or the types of meals served (free, reduced or paid).

Subchapter A, Part 210.9, paragraph 17 states that each school authority "upon request, make all accounts and records pertaining to its school food service available to the State agency and to FNS, for audit or review, at a reasonable time and place. Such records shall be retained for a period of 3 years after the date of the final Claim for Reimbursement for the fiscal year to which they pertain ..."

Finding Number	2006-002 (Continued)
-----------------------	-----------------------------

The Subchapter specifically states that all records shall be maintained for a period of 3 years; however, it does not specify the format for the retention of those records. The Academy believes that it fulfilled the requirements of Subchapter A and even took additional steps to assist the auditors. We respectfully request that the auditor re-label this finding as a significant deficiency given that federal requirements were met.

Finding Number	2006-003
CFDA Title and Number	Child Nutrition Cluster - CFDA #'s 10.553, 10.555, 10.556, 10.559
Federal Award Number / Year	School Breakfast Program 2004-2005 National School Lunch Program 2003-2004 and 2004-2005
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	N/A

Reportable Condition/Non compliance - Internal Controls Over the Lunchroom Records/Reporting

Circular A-133 Section .300(b), states that “the auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

In order for a student to receive free or reduced meals, the student’s parent must complete a free/reduced application. Difficulties were noted with the applications reviewed as follows: one student received reduced-price meals, but an application could not be found; two students received free meals, but should have received reduced price meals based on the requirements; two students were served reduced price meals, but the applications had been denied; one student received free meals, but should have been denied based on the requirements; and six applications had “withdrawn” shown on the application, but meals were served for the particular student after the withdrawal date noted on the application.

For the fiscal year 2005, Nutrition Cluster program tested, the school utilized an automated system is utilized to track student meals served on a daily basis. The system can generate a daily report to show the type and number of meals served; however, these reports were not retained to support the total meals being requested for reimbursement. The only system generated report available for audit was a 1200 page student account journal showing the activity for each student for each day of the school year. The management company used this journal to prepare a spreadsheet to generate a calculation of the total free and reduced meals served during the year. The number of meals submitted for reimbursement was inaccurate for each month of the school year.

Failure to provide adequate support for free and reduced meals according to the applicable federal requirements and approved applications leads to inaccuracies in types of meals served and possible inaccurate reimbursement amounts which could result in questioned costs. In addition, the failure to maintain records to support the proper number of meals served could also lead to inaccurate requests for reimbursement and possible questioned costs. The lack of support resulted in the necessity to perform alternate procedures to determine the reliability of the information submitted for meal reimbursement.

Finding Number	2006-003 (Continued)
-----------------------	-----------------------------

The School does not have adequate internal controls in place for the National School Lunch Program to provide reasonable assurance that the School is appropriately managing the Federal award. A policy should be adopted on the procedures to follow and the records to be maintained. Free and reduced applications should be approved or denied based on the applicable requirements and meals should be provided to those students that have been properly and correctly approved. In addition, if an application shows that a student has withdrawn, the student should not be served a meal after the withdrawal date. In addition, the daily reports should be retained to support the number of meals reported for reimbursement which should agree exactly to the system-generated meal reports, unless an explanation is provided for any change.

The School should ensure that internal controls over the National School Lunch Program are adequate to provide reasonable assurance that the award is being managed in compliance with the grant requirements. As part of the internal control process, an individual knowledgeable of the grant's requirements should approve and/or review various aspects of the grant process and determine that appropriate records are maintained and grant requirements are being met.

Officials' Response:

We recognize that the Academy is responsible for maintaining sufficient internal controls to ensure that its free/reduced lunch program is operated in compliance with the law. During fiscal year 2005 and 2006, the lunch program was outsourced to a third party and there were errors in some of the student records and the daily lunch records.

Federal law and regulations do not prohibit the sponsor of a School Breakfast Program or a National School Lunch Program from paying administrative and overhead costs with grants received to operate those programs. See A-133 Compliance Supplement (March 2002), 7 CFR Ch II Section 210.14(a) and CFR Ch II Section 220.7(e)(l)(i).

The management company was dissatisfied with the service of the third party provider and re-bid the services during fiscal year 2007. A new service provider was selected and their services were fully implemented during the last half of fiscal year 2007. In addition, a new automated lunch record keeping system was implemented at the time the change was made in the service provider.

The management company has been working extensively with the new service provider to ensure that the proper policies and procedures are followed in the school lunch program and any errors noted by the auditor will not be repeated. The internal controls that are now in place and that will be implemented should prevent a re-occurrence of this problem.

The auditor noted instances where students were provided lunches at free or reduced prices per the daily lunch records even though the applications would not have supported the subsidized pricing or the student had withdrawn from the Academy. The auditor also noted that the number of meals served per the monthly claims submitted for reimbursement were lower than the claims per the daily lunch records by 986 free meals (2.2% of submitted claims) and 802 reduced meals (8.6% of submitted claims). It appears that the third party service provider detected errors in the daily lunch records and made corrections to the monthly claims prior to submission.

**NORTH DAYTON SCHOOL OF DISCOVERY
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	SERS was not consistently being deducted on every pay	Partially	Action taken
2004-002	Social Security deductions were being made from employees' wages and remitted	No	Removed
2004-003	Payment of property tax and sales tax	No	Removed
2004-004	Deductions for Medicare were calculated incorrectly	No	Action taken; reported to management of the school in a separate letter.
2004-005	Payment of sales tax with federal grants	No	Removed
2004-006	Title I program overcharged. Finding for Recovery – Repaid Under Audit	Yes	
2004-007	Expenditures were made from grant funds for items that were not stipulated in the outlined budget – Charter School Grant.	Yes	
2004-008	Expenditures made in excess of the budgeted allowance – Charter School Grant.	Yes	
2004-009	Equipment purchased with grant funds were not recorded on a fixed asset listing.	Yes	



Mary Taylor, CPA
Auditor of State

NORTH DAYTON SCHOOL OF DISCOVERY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 12, 2008**