



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, 2015, 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 North Dayton School of Discovery, Montgomery County, Ohio, as of June 30, 2015, and the changes in 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.

One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402  
Phone: 937-285-6677 or 800-443-9274 Fax: 937-285-6688

[www.ohioauditor.gov](http://www.ohioauditor.gov)

***Emphasis of Matter***

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

***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*, and schedules of net pension liabilities and pension contributions 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. Although our opinion on the basic financial statements is not affected, the following material departures from the prescribed guidelines exist: *Management's discussion and analysis* does not include the condensed financial information required by GASB Codification Section 2200.109b comparing the current to the prior year necessary to support the analysis of financial position and results of operations required in GASB Codification Section 2200.109c. 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 the 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 October 25, 2016, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 25, 2016

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**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

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, 2015. 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, 2015, total assets were \$243,832, deferred outflows of resources were \$287,419, total liabilities were \$4,524,994, total deferred inflows of resources were \$804,800 and total net position was (\$4,798,543).

During 2015, the Academy adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Academy's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)**

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$119,005 to (\$4,857,249).

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implantation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$270,102 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows and deferred outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$210,037. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$5,993,058
Pension expense under GASB 68	(210,037)
2015 contractually required contribution	<u>245,507</u>
Adjusted 2015 program expenses	6,028,052
Total 2014 program expenses under GASB 27	<u>5,544,628</u>
Increase in program expenses not related to pension	<u><u>\$483,900</u></u>

**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.

**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)**

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 Academy, 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.

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

	<b>2015</b>
<b>Assets:</b>	
Current assets	\$231,762
Capital assets, net of accumulated depreciation	12,070
Total assets	243,832
 <b>Deferred outflows of resources:</b>	
Pension system	287,419
 <b>Liabilities:</b>	
Current liabilities	113,974
Net pension liability	4,411,020
Total liabilities	4,524,994
 <b>Deferred inflows of resources:</b>	
Pension system	804,800
 <b>Net position:</b>	
Net investment in capital assets	12,070
Restricted – School Service Fund	78,121
Unrestricted	(4,888,734)
Total Net Position	(\$4,798,543)

The unrestricted net position represent the accumulated results of the Academy's operations to date. These assets can be used to finance day-to day-operations without constraints, such as legislative or legal requirements. The results of the current-year operations for the Academy as a whole are reported in the statement of revenues, expenses, and changes in net position, which shows the change in net position.

**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)**

**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 year ending June 30:

	<b>2015</b>
<b>Operating revenues:</b>	
Foundation payments	\$4,405,945
Food services	144
Other revenues	68,078
Total operating revenues	4,474,167
 <b>Operating expenses:</b>	
Depreciation	4,467
Expenses of the Board of Directors	46,682
Contracted service fee	5,993,058
Pension system re-characterizing	(47,853)
Total operating expenses	5,996,354
 Operating loss	(1,522,187)
 <b>Non-operating revenues:</b>	
Federal grants	953,088
State grants	8,420
Private sources – NHA	619,385
Total non-operating revenues	1,580,893
 Change in net position	\$58,706

As reported in the statement of revenues, expenses, and changes in net position, the cost of business activities was \$5,996,354. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. *Revenues Non-Operating — 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 \$58,706 in 2015. The primary reason for the change in net position is the re-characterization of pension funding and the timing of Board discretionary expenditures. Under the terms of the Agreement, NHA provides a spending account to the Board of Directors for discretionary expenditures.

**Capital Assets**

At June 30, 2015, the Academy had \$12,070 invested in capital assets from, 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 2016.

**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)**

**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, 2015**

<b>Current Assets:</b>	
Cash	\$39,667
Intergovernmental receivable	192,095
Total Current Assets	231,762
 <b>Non-Current Assets:</b>	
Capital assets	39,873
Less: accumulated depreciation	(27,803)
Total Non-Current Assets	12,070
Total Assets	243,832
 <b>Deferred Outflows of Resources:</b>	
Pension system	287,419
 <b>Current Liabilities:</b>	
Unearned revenue	3,292
Contracted service fee payable	110,682
Total Current Liabilities	113,974
 <b>Non-Current Liabilities:</b>	
Net pension liability	4,411,020
Total Liabilities	4,524,994
 <b>Deferred Inflows of Resources:</b>	
Pension system	804,800
 <b>Net Position:</b>	
Net investment in capital assets	12,070
Restricted – School Service Fund	78,121
Unrestricted	(4,888,734)
Total Net Position	(\$4,798,543)

*See 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, 2015**

<b>Operating Revenues:</b>	
Foundation payments	\$4,405,945
Food services	144
Other revenues	68,078
Total Operating Revenues	<u>4,474,167</u>
<b>Operating Expenses:</b>	
Depreciation	4,467
Expenses of the Board of Directors	46,682
Contracted service fee	5,993,058
Pension system re-characterization	(47,853)
Total Operating Expenses	<u>5,996,354</u>
Operating Loss	<u>(1,522,187)</u>
<b>Non-Operating Revenues:</b>	
Federal grants	953,088
State grants	8,420
Private sources – NHA	619,385
Total Non-Operating Revenue	<u>1,580,893</u>
Change in Net Position	58,706
Net Position – Beginning of year <i>(Restated – see Note 3)</i>	<u>(4,857,249)</u>
Net Position – End of year	<u>(\$4,798,543)</u>

*See 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, 2015**

<b>Cash Flows from Operating Activities:</b>	
Cash received from State of Ohio	\$4,421,821
Cash received from food services	2,926
Cash received from other operating revenue	68,078
Cash paid on behalf of the Academy for good and services	<u>(5,452,444)</u>
Net cash used in operating activities	<u>(959,619)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Federal grants received	939,517
State grants received	<u>8,420</u>
Net cash provided by non-capital financing activities	<u>947,937</u>
Net Decrease in Cash	(11,682)
Cash – Beginning of year	<u>51,349</u>
Cash – End of year	<u><u>\$39,667</u></u>
<b>Reconciliation of Operating Loss to Net Cash used for Operating Activities:</b>	
Operating loss	(\$1,522,187)
Support from private sources – NHA	619,385
Entitlement commodities assistance	20,659
Depreciation	4,467
<b>Changes in assets and liabilities:</b>	
Change in intergovernmental receivables affecting operating revenue	14,682
Change in pension system, net	(47,853)
Change in deferred revenue	2,782
Change in contracted service fee payable	<u>(51,554)</u>
Net cash used for operating activities	(\$959,619)
<b>Non-cash Activity:</b>	
Support from private sources – NHA	<u>\$619,385</u>
Entitlement commodities assistance	<u><u>\$20,659</u></u>

*See accompanying notes to the basic financial statements.*

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**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**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 expired on June 30, 2015 and was subsequently renewed through June 30, 2018. 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.

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.

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise's activities.

**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**A. 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.

**B. 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, 2015, represents bank deposits, which are covered by federal depository insurance.

**C. 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 to 10 years.

**D. Contracted Service Fee Payable** — Contracted service fee payable as of June 30, 2015, represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the agreement.

**E. Un-earned Revenue**

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

**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**G. Deferred Outflows and Deferred Inflows of Resources**

In addition to assets, the statements of the financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 7.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applied to a future period and will not be recognized until that time. For the Academy, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 7.)

**H. 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.

**I. Net Position**

Net position represent 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.

**J. 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.

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**NOTES TO FINANCIAL STATEMENTS  
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**3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NEW POSITION**

For fiscal year 2015, the Academy implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. GASB 71 amends paragraph 137 of GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this GASB 71 are required to be applied simultaneously with the provisions of GASB 68. See below for the effect on net position as previously reported. The implementation of these pronouncements had the following effect on net position as reported June 30, 2014:

Net position – June 30, 2014	\$119,005
<b>Adjustments:</b>	
Net pension liability	(\$5,246,356)
Deferred outflow – payment subsequent to measurement date	270,102
Restated net position – June 30, 2014	(\$4,857,249)

Other than employer contributions subsequent to the measurement date, the Academy made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**4. DEPOSITS AND INVESTMENTS**

At fiscal year-end June 30, 2015, the Academy’s bank balance was \$39,667. Based on the criteria described in GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, as of June 30, 2015, 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.

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.

**5. RECEIVABLES**

Receivables at June 30, 2015, 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, 2015, is as follows:

Title I	\$157,319
Title IIA	2,187
IDEA Part B	12,950
National School Lunch and Breakfast	19,639
Total intergovernmental receivables	\$192,095

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**6. CAPITAL ASSETS**

Capital asset activity of the Academy's activities at June 30, 2015, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Business-type activities – equipment	\$39,873			\$39,873
Total capital assets at historical cost	39,873			39,873
Less accumulated depreciation – equipment	(23,336)	(\$4,467)		(27,803)
Total accumulated depreciation	(23,336)	(4,467)		(27,803)
Total business-type activities capital assets – net	\$16,537	(\$4,467)	\$0	\$12,070

**7. DEFINED BENEFIT PENSION PLANS**

**A. Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Academy's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the Academy's obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of the NHA-employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the Academy, because (1) it benefit from NHA-employee services; and (2) State statute requires all funding to come from the Academy. All contributions to date have come solely from the Academy (which also includes costs paid in the form of withholdings from NHA-employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting.

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. Plan Description – School Employees Retirement System (SERS)**

**Plan Description** – Non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, standalone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017*
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017 will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$28,152 for fiscal year 2015. Of this amount \$0 is reported as an intergovernmental payable.



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**NOTES TO FINANCIAL STATEMENTS  
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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**C. Plan Description – State Teachers Retirement System (STRS)**

**Plan Description** – The Academy’s licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices 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 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member’s defined contribution account or the defined contribution portion of a member’s Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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**NOTES TO FINANCIAL STATEMENTS  
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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**Funding Policy** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$217,355 for fiscal year 2015. Of this amount \$0 is reported as an intergovernmental payable.

**D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension**

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities.

The following is information related to the proportionate share and pension expense:

	<b>SERS</b>	<b>STRS</b>	<b>Total</b>
Proportionate share of net pension liability	\$495,821	\$3,915,199	\$4,411,020
Proportion of the net pension liability	0.009797%	0.016096%	
Pension expense	\$29,158	\$180,879	\$210,037

At June 30, 2015, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>SERS</b>	<b>STRS</b>	<b>Total</b>
<b>Deferred outflows of resources:</b>			
Difference between expected and actual experience	\$4,220	\$37,692	\$41,912
Academy contributions subsequent to the measurement date	28,152	217,355	245,507
Total deferred outflows of resources	<u>\$32,372</u>	<u>\$255,047</u>	<u>\$287,419</u>
<b>Deferred inflows of resources:</b>			
Net difference between projected and actual earnings on Pension plan investments	<u>\$80,473</u>	<u>\$724,327</u>	<u>\$804,800</u>

The Academy reported \$287,419 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

<u>Fiscal year ending June 30,</u>	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	(\$19,063)	(\$171,659)	(\$190,722)
2017	(19,063)	(171,659)	(190,722)
2018	(19,063)	(171,659)	(190,722)
2019	(19,064)	(171,658)	(190,722)
Total	<u>(\$76,253)</u>	<u>(\$686,635)</u>	<u>(\$762,888)</u>

**E. Actuarial Assumptions – SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage inflation	3.25 percent
Future salary increases, including inflation	4 to 22 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

**Discount Rate** – The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Academy's proportionate share of the net pension liability	\$707,392	\$495,821	\$317,874

**F. Actuarial Assumptions – STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

Inflation	2.75 percent
Projected salary increase	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	1.75 percent net of investments expense
COLA	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013 or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022— Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00%	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00%</u>	

**Discount Rate** – The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Academy's proportionate share of the net pension liability	\$5,605,207	\$3,915,199	\$2,486,243

**8. POST-EMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Plan Description** – On behalf of certain employees at the Academy, NHA and contractors of NHA contribute to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a costsharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. NHA contributions on behalf of the Academy assigned to health care (including surcharge) for the year ending June 30, 2015, 2014 and 2013 were \$3,174, \$1,474 and \$179 respectively, 100 percent was contributed in each fiscal year.

**B. State Teachers Retirement System**

**Plan Description** – NHA, on behalf of teachers at the Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (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](http://www.strsoh.org) or by calling (888) 227-7877.

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**8. POST-EMPLOYMENT BENEFITS (Continued)**

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2015, STRS Ohio allocated did not allocate any employer contributions to the Health Care Stabilization Fund. NHA’s contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013, were \$0, \$16,499, and \$16,613, respectively; 100 percent was contributed for each fiscal year.

**9. 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 2015, and claims did not exceed coverage less retained risk deductible amounts during the past three fiscal years.

**10. CONTINGENCIES**

**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.

**State Funding** — Academy state foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, community schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 state foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

**11. RELATED PARTY**

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

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**12. CONTRACTED SERVICE FEE**

NHA incurred the following actual direct and indirect expenses on behalf of the Academy for the year ended June 30, 2015:

<b>Contracted Service Fee:</b>	
Salaries, wages and benefits	\$2,537,257
Professional and technical services	451,334
Contracted (trade) services	39,196
Property services	1,117,530
Books, periodicals, films	211,873
Supplies	131,969
Utilities	64,009
Food service	385,002
Travel and training	145,614
Purchases services	85,398
Equipment lease and purchases	110,948
Field trips and student activities	38,480
Insurance and property taxes	21,403
Total Direct Costs	<u>5,340,013</u>
Indirect Costs	<u>653,045</u>
Total	<u><u>\$5,993,058</u></u>

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

**13. 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. Oversight fees paid to ESCLEW were \$87,439 for fiscal year 2015.

**14. 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, 2014 through June 30, 2015. 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 renewed the sublease with NHA for the period of July 1, 2015 through June 30, 2016, at the same rental rate.



**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO  
LAST TWO FISCAL YEARS <sup>(1)</sup>**

	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.009797%	0.009797%
Academy's proportionate share of the net pension liability	\$495,821	\$582,597
Academy's covered-employee payroll	\$188,075	\$167,764
Academy's proportionate share of the net pension liability As a percentage of the total pension liability	263.63%	347.27%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

<sup>(1)</sup> *Information prior to 2013 is not available.*

Amounts presented as of the Academy's measurement date,  
Which is the prior fiscal year end.

**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
SCHOOL TEACHERS RETIREMENT SYSTEM OF OHIO  
LAST TWO FISCAL YEARS <sup>(1)</sup>**

	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.016096%	0.016096%
Academy's proportionate share of the net pension liability	\$3,915,199	\$4,663,759
Academy's covered-employee payroll	\$1,649,925	\$1,661,264
Academy's proportionate share of the net pension liability As a percentage of the total pension liability	237.30%	280.74%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

<sup>(1)</sup> *Information prior to 2013 is not available.*

Amounts presented as of the Academy's measurement date,  
which is the prior fiscal year end.

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**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF ACADEMY CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO  
LAST TEN FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$28,152	\$26,067	\$23,219	\$21,594
Contributions in relation to the contractually required contribution	<u>28,152</u>	<u>26,067</u>	<u>23,219</u>	<u>21,594</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Academy covered-employee payroll	\$213,600	\$188,075	\$167,764	\$160,550
Contributions as a percentage of Covered-employee payroll	13.18%	13.86%	13.84%	13.45%

<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
\$18,567	\$38,611	\$35,799	\$28,275	\$28,232	\$30,126
18,567	38,611	35,799	28,275	28,232	30,126
\$0	\$0	\$0	\$0	\$0	\$0
\$147,709	\$285,162	\$363,811	\$287,933	\$264,345	\$284,745
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF ACADEMY CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM OF OHIO  
LAST TEN FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$217,355	\$214,490	\$215,964	\$216,196
Contributions in relation to the contractually Required contribution	<u>217,355</u>	<u>214,490</u>	<u>215,964</u>	<u>216,196</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Academy covered-employee payroll	\$1,552,538	\$1,649,925	\$1,661,264	\$1,663,046
Contributions as a percentage of Covered-employee payroll	14.00%	13.00%	13.00%	13.00%

<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
\$177,249	\$199,332	\$206,349	\$216,418	\$191,857	\$196,754
177,249	199,332	206,349	216,418	191,857	196,754
\$0	\$0	\$0	\$0	\$0	\$0
\$1,363,454	\$1,533,323	\$1,587,300	\$1,664,754	\$1,475,823	\$1,513,492
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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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, 2015

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. Department of Agriculture</b>					
<i>Passed through the Ohio Department of Education</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	118,563		120,349	
National School Lunch Program	10.555	259,036	20,659	263,833	20,659
Total Child Nutrition Cluster		<u>377,599</u>	<u>20,659</u>	<u>384,182</u>	<u>20,659</u>
Total U.S. Department of Agriculture		<u>377,599</u>	<u>20,659</u>	<u>384,182</u>	<u>20,659</u>
<b>U.S. Department of Education</b>					
<i>Passed through the Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	388,095		390,652	
Improving Teacher Quality State Grants	84.367	4,910		4,020	
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act	84.395	46,277		33,778	
Special Education Grants to States	84.027	82,825		95,775	
Total U.S. Department of Education		<u>522,107</u>		<u>524,225</u>	
Total Federal Financial Assistance		<u>\$899,706</u>	<u>\$20,659</u>	<u>\$908,407</u>	<u>\$20,659</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, 2015**

**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 the North Dayton School of Discovery, Montgomery County, (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 25, 2016 wherein during the year ended June 30, 2015, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

### ***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.

**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 25, 2016



# 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 North Dayton School of Discovery's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings 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.

### ***Opinion on Each Major Federal Program***

In our opinion, the North Dayton School of Discovery complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2015.

## 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.

*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.

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 25, 2016

**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster CFDA # 10.553 – School Breakfast Program CFDA # 10.555 – National School Lunch Program  CFDA # 84.010 – Title I Grants to Local Educational Agencies
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	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**

None



**NORTH DAYTON SCHOOL OF DISCOVERY  
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2015**

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