



Mary Taylor, CPA
Auditor of State

**DAYTON TECHNOLOGY DESIGN HIGH SCHOOL
MONTGOMERY COUNTY**

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Mary Taylor, CPA

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INDEPENDENT ACCOUNTANTS' REPORT

Dayton Technology Design High School
Montgomery County
840 Germantown Street
Dayton, OH 45407

To the Governing Board:

We have audited the accompanying basic financial statements of the Dayton Technology Design High School, Montgomery County (the School), as of and for the year ended June 30, 2007, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 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.

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

Mary Taylor, CPA
Auditor of State

April 21, 2008

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DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

The discussion and analysis of Dayton Technology Design High School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- At the end of fiscal year 2007, the first year the School was in operation, assets exceeded liabilities by \$27,849.
- An operating loss of \$38,327 was more than offset by non-operating revenues of \$66,176 primarily from specific state and federal grant programs.
- During fiscal year 2007, the School was able to repay \$25,000 of the \$100,000 loan provided by its Sponsor, Dayton Public Schools, to fund operations at the School during the start-up phase. The remaining \$75,000 will be repaid in annual installments of \$25,000 through fiscal year 2010.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

Table 1 provides a summary of the School's net assets for fiscal year 2007. As this was the first fiscal year the School had any financial activity, there are no comparison amounts available for fiscal year 2006 for presentation. In future years, amounts of the current fiscal year will be compared with similar amounts from the prior year.

Table 1
Net Assets

	<u>2007</u>
Assets:	
Current assets	\$ <u>155,782</u>
Total Assets	<u>155,782</u>
Liabilities:	
Current liabilities	77,933
Non-current liabilities	<u>50,000</u>
Total Liabilities	<u>127,933</u>
Net Assets:	
Restricted	12,396
Unrestricted	<u>15,453</u>
Total Net Assets	<u>\$ 27,849</u>

The School ended the year ended June 30, 2007 with net assets of \$27,849. Of this amount, \$12,396 was restricted to specific state and federal educational grant programs. This means that the administration of the School does not have discretion in how these funds may be spent. The remaining \$15,453 of net assets may be allocated in any legal manner deemed appropriate by the School. \$3,952 of the intergovernmental receivable is associated with a specific State grant in which the School did not draw the total amount available to the School through the grant as of June 30, 2007 and the \$14,456 of intergovernmental receivables represents amounts due from the Ohio Department of Education for fiscal year 2007 foundation payments. All equipment utilized by the School during the fiscal year remained property of Dayton Public Schools and therefore, no capital assets are reported in the statement of net assets. Prepaid amounts consisted of insurance premiums which covered part of fiscal year 2008.

The liabilities of the School at June 30, 2007 consisted of amounts due to staff members for services rendered prior to year-end but payment is not received until after year-end. As with most schools, the educational staff works a schedule which is consistent with the school year. As such, educational staff members earn their contract prior to year end when the school year ends. However, the pay to these employees is stretched over the entire calendar year. Therefore, at June 30, 2007 the remainder of the contract represents a liability for the current year. Contracts for fiscal year 2007 ran through the last pay of July 2007. The intergovernmental liability represented the employer share of retirement, Medicare and workers' compensation liability due on the earned but unpaid employee compensation, as well as payments made in July 2007 to Dayton Public Schools for June 2007 health care benefits for employees. Compensated absences liability was vacation leave earned as of June 30, 2007 but not yet paid to employees.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

On July 10, 2006 the School's Sponsor, Dayton Public Schools, provided the School with a loan of \$100,000 to fund operations during the start-up phase of the School. During the fiscal year, the School repaid \$25,000 against this loan which left a \$75,000 loan payable balance due to Dayton Public Schools at June 30, 2007. The School and Dayton Public Schools have agreed that the School will make \$25,000 payments against this loan in each of the next three fiscal years.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007. Again, as this was the first fiscal year the School had any financial activity, there are no comparison amounts available for fiscal year 2006 for presentation. In future years, amounts of the current fiscal year will be compared with similar amounts from the prior year.

Table 2
Net Assets

	<u>2007</u>
Operating Revenues:	
Foundation payments	\$ 710,841
Non Operating Revenues:	
State and federal grants	60,676
Local grants	<u>5,500</u>
Total Revenues	<u>777,017</u>
Operating Expenses:	
Salaries	518,853
Fringe Benefits	144,191
Purchased services	39,522
Materials and supplies	45,294
Other expenses	<u>1,308</u>
Total Expenses	<u>749,168</u>
Change in net assets	27,849
Net assets, beginning of year	<u>-</u>
Net Assets, end of year	<u><u>\$ 27,849</u></u>

As previously mentioned, the 2006-2007 school year was the first in which the School operated and provided instructional services. Therefore, there are no comparison numbers from the prior year to analyze the current year revenues and expenses against.

The State Foundation program provides the operating revenue to the School via monthly payments. These payments are based on the number of students enrolled at the School multiplied by a per-pupil funding amount determined by the State. For fiscal year 2007, the School reported an operating loss of \$38,327 meaning that operating expenses exceeded State Foundation revenues. However, in addition to State

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

Foundation, the School also receives grants from federal, state and local sources for specific educational programs which are reported as non-operating revenues. For fiscal year 2007, the School received \$66,176 in specific grant funds which were more than enough to cover the operating loss reported for the year.

Debt

At June 30, 2007, the debt obligations of the School consisted of solely of the \$75,000 loan payable due to Dayton Public Schools. As previously mentioned, in July 2006 Dayton Public School provided a \$100,000 loan to the School to provide funds during the start-up phase of the School. The School repaid \$25,000 to Dayton Public Schools during the year, resulting in the School reporting a \$75,000 loan payable at June 30, 2007, of which \$25,000 is due within the next year. See Note 5 to the basic financial statements for additional details.

Budgetary Highlights

Community schools must adopt a spending plan as set forth in Ohio Revised Code Section 5705.391, which requires annual appropriations and annual revenue estimates.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Dayton Technology Design High School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to Janice Allen, Treasurer of Dayton Technology Design High School, 840 Germantown Street, Dayton, OH 45407.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Statement of Net Assets

June 30, 2007

Assets

Current assets:

Cash and cash equivalents	\$	132,134
Receivables:		
Intergovernmental		18,408
Prepaid expenses		<u>5,240</u>

Total assets 155,782

Liabilities

Current liabilities:

Accrued wages payable	32,617
Intergovernmental payable	13,355
Compensated absences payable	6,961
Loan Payable	<u>25,000</u>

Total current liabilities 77,933

Noncurrent liabilities:

Loan payable, net of current portion	<u>50,000</u>
--------------------------------------	---------------

Total liabilities 127,933

Net assets

Restricted for specific educational programs	12,396
Unrestricted	<u>15,453</u>

Total net assets \$ 27,849

See accompanying notes to the basic financial statements.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2007

<u>Operating revenues:</u>	
Foundation payments	\$ <u>710,841</u>
Total operating revenues	<u>710,841</u>
 <u>Operating expenses:</u>	
Salaries	518,853
Fringe benefits	144,191
Purchased services	39,522
Materials and supplies	45,294
Other	<u>1,308</u>
Total operating expenses	<u>749,168</u>
Operating loss	<u>(38,327)</u>
 <u>Non-operating revenues:</u>	
State and federal grant revenue	60,676
Local grant revenue	<u>5,500</u>
Total non-operating revenues	<u>66,176</u>
Change in net assets	27,849
Net assets at beginning of year	<u>-</u>
Net assets at end of year	\$ <u>27,849</u>

See accompanying notes to the basic financial statements.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Statement of Cash Flows

Year Ended June 30, 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:

Cash from State of Ohio	\$ 696,385
Cash payments to suppliers for goods and services	(91,364)
Cash payments to employees for services and benefits	<u>(610,111)</u>
Net cash used for operating activities	<u>(5,090)</u>

Cash flows from noncapital financing activities:

Proceeds from loan	100,000
Repayment of loan principal	(25,000)
Federal and state grants	56,724
Local grants	<u>5,500</u>
Net cash provided by noncapital financing activities	<u>137,224</u>

Net increase in cash and cash equivalents 132,134

Cash and cash equivalents, beginning of year -

Cash and cash equivalents, end of year \$ 132,134

Reconciliation of operating loss to net cash used for
for operating activities

Operating loss	\$ (38,327)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(14,456)
Increase in prepaid items	(5,240)
Increase in accrued wages payable	32,617
Increase in intergovernmental payable	13,355
Increase in compensated absences payable	<u>6,961</u>
Total Adjustments	<u>33,237</u>
Net cash used for operating activities	\$ <u><u>(5,090)</u></u>

See accompanying notes to the basic financial statements.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Notes to the Basic Financial Statements

June 30, 2007

1. Description of the School and Reporting Entity:

Dayton Technology Design High School (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School is considered a conversion community school under Ohio Law. Conversion schools are created by converting all or part of an existing public school into a community school. Conversion schools may be sponsored by and operate in any public school district.

The School is designed for at-risk, high school students who have a desire for, and whose education can be optimized by, a program of online instruction environment that does not include ancillary components of a more traditional education. Because the focus is on virtual learning, the ability of students to learn independently using various computer educational programs is an essential element of the School's program.

The School was approved for operation under contract with its Sponsor, Dayton Public Schools, for a period of five years commencing July 1, 2006. Under the terms of its contract with the Sponsor, the School has access to facilities, staff, equipment, instructional materials, curriculum, and educational strategy of the Sponsor as determined appropriate. The Sponsor may, at its sole option, accelerate the expiration of the contract for any reason by giving written notice of its intent to the School by May 1 of any given year, in which the contract will expire on June 30 of the same year.

The School operates under a five-member Board of Directors (the Board). The Sponsor Contract requires that the majority of the members of the Board be elected or appointed public officials or public sector employees who have a professional interest in furthering the establishment and operation of the School, some but not all of whom may be administrators within Dayton Public Schools. The Sponsor Contract also permits additional Board positions to be filled by parents or community civic leaders. The School was housed in a facility owned and operated by the Sponsor and is staffed by ten certificated and two non-certificated employees who provide services to an enrollment of 88 students.

2. Summary of Significant Accounting Policies:

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Notes to the Basic Financial Statements

June 30, 2007

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets 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 measurements 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 process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash into separate funds.

E. Prepaid expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and the expense is reported in the year in which the services are consumed.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Notes to the Basic Financial Statements

June 30, 2007

G. Intergovernmental revenues

The School is a participant in the State Foundation Program which is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

H. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include revenues paid through the State Foundation Program. Operating expenses are necessary costs incurred to support the School's primary mission, including salaries, benefits and educational services and materials.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal, state and local grants comprise the non-operating revenues of the School.

I. Accrued liabilities payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2007, including:

Accrued wages payable – salary payments made after year-end that were for services rendered in fiscal year 2007. Teaching personnel are paid in 26 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2007 for all salary payments made to teaching personnel during the month of July 2007.

Intergovernmental payable – payments for June's employee health insurance premiums (\$9,366), the employer's share of the retirement contribution (\$3,262), workers' compensation (\$254) and Medicare (\$473) associated with services rendered during fiscal year 2007, but were not paid until the subsequent fiscal year.

J. Compensated absences

Leave time that has been earned but has not yet been taken by employees, is accrued to the extent that it is considered probable that the conditions for payment in the future will be met. For vacation leave earned by employees, the conditions are considered met when they earned the leave time since any unused vacation time is paid to employee when they leave employment for any reason.

K. 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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted net assets of the School at year-end represent unspent federal and state grant resources for specific instructional program. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Notes to the Basic Financial Statements

June 30, 2007

3. Deposits and Investments:

The School does not have a policy addressing custodial credit risk for its deposits. At June 30, 2007, the carrying amount of the School's deposits was \$132,134 and the bank balance was \$137,293. \$37,293 of the bank deposit was exposed to custodial credit risk as it was collateralized by pooled investments held by a third party but not in the name of the School.

Although all statutory requirements for the deposit of public money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

During the fiscal year ended June 30, 2007, the School had no investments.

4. Intergovernmental Receivables:

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs. The intergovernmental receivable reported at June 30, 2007 consists of \$14,456 in additional fiscal year 2007 foundation funding the School will receive in the subsequent year as a result of the final funding review performed by the Ohio Department of Education and \$3,952 of funding allocated under the Ohio Community School Grant in FY2007 which was not used by the School as of June 30, 2007.

5. Loan Payable:

On July 10, 2006 the School's Sponsor, Dayton Public Schools, provided the School with a loan of \$100,000 to fund operations during the start-up phase of the School. There is no provision for interest on this loan. The loan agreement requires the loan to be repaid in four annual installments of \$25,000 ending in fiscal year 2010. During the fiscal year, the School repaid \$25,000 against this loan which left a \$75,000 loan payable balance due to Dayton Public Schools at June 30, 2007.

The following is a summary of the Loan Payable activity for the School at June 30, 2007:

	Balance at July 1, 2006	Additions	Payments	Balance at June 30, 2007	Amount Due w/in 1 year
Loan Payable - DPS	\$ -	\$ 100,000	\$ (25,000)	\$ 75,000	\$ 25,000

6. Risk Management:

Property and liability – The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School contracted with the Lexington Insurance Company for business general liability, abuse and molestation, and property coverage. General liability (including personal and advertising injury) coverage is \$1 million each occurrence with a \$2 million policy aggregate. Damage to rented premises coverage is \$100,000. Abuse and molestation coverage is \$1 million per occurrence and \$2 million general liability policy aggregate. Business property coverage is \$10,000 with an 80 percent co-insurance with hired and non-owned auto liability with a single and combined limit of liability at \$1 million.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Notes to the Basic Financial Statements

June 30, 2007

School leaders' errors and omissions coverage is contracted with National Union Fire Insurance Company and has an aggregate limit of liability at \$1 million. Judgments, settlements and defense costs related to employment practices claims and non-employment discrimination claims are covered at \$50,000 per loss. Judgments, settlements and defense costs related to claims other than employment practices claims and non-employment discrimination claims are covered at \$10,000 per loss.

Employee insurance benefits – As part of the Sponsor Contract, School employees are covered by the Sponsor's insurance benefit coverage and premiums for the benefits are paid by the School to the Sponsor each pay period.

7. Defined Benefit Pension Plans:

A. School Employees Retirement System

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 State Statute 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 43215-3476 or by calling (614) 222-5853 or by visiting www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate, the current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent 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. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2007 was \$7,411; 100 percent has been contributed for the year.

B. State Teachers Retirement System

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 or by calling (614) 227-4090, or by visiting 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 times 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

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Notes to the Basic Financial Statements

June 30, 2007

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 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, 2007, plan members were required to contribute the statutory maximum of 10.0 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal year ended June 30, 2007 was \$58,242; 100 percent has been contributed for the year. Contributions to the DC and Combined Plans were \$2,201 made by the School and \$2,097 made by plan members.

8. Postemployment Benefits

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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 funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefits recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$4,480 for fiscal year 2007.

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

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Notes to the Basic Financial Statements

June 30, 2007

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the School District paid \$2,656 to fund health care benefits, including the surcharge.

SERS' net health care costs for the year ending June 30, 2006 were \$158,751,207. 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. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of SERS participants eligible to receive benefits is 59,492.

9. Restricted Net Assets:

At June 30, 2007 the School reported restricted net assets totaling \$12,396, all of which are restricted for use in federal and state specific educational grants.

10. 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 for fiscal year 2007 determined the School was owed an additional \$14,456 of foundation funding. This amount will be paid to the School through its foundation settlements received in fiscal year 2008. Therefore, the \$14,456 has been recorded as an intergovernmental receivable at June 30, 2007.

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

Notes to the Basic Financial Statements

June 30, 2007

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 School 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 effects of this suit, if any, on the School cannot presently be determined.

11. Other Purchased Services:

During the fiscal year ended June 30, 2007, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$	12,452
Property services		3,144
Travel and meeting expense		6,905
Communications		14,378
Contracted craft or trade services		903
Tuition		1,255
Pupil transportation services		485
	\$	<u>39,522</u>

12. Related Party Transactions:

During the fiscal year ended June 30, 2007, the School repaid \$25,000 of the \$100,000 borrowed from its Sponsor, Dayton Public School District (DPSD). In addition, the payroll, payroll taxes and other employee benefits related to the School's employees are processed and initially paid by DPSD. The School subsequently reimburses DPSD for these expenditures after each pay-period. During fiscal year 2007, the School reported expenses related to salaries and fringe benefits of \$518,853 and \$144,191, respectively.

13. Jointly Governed Organization:

The School District is a participant in the Southwestern Ohio Computer Association (SWOCA), which is an information technology center which provides on-line computer services to the member school districts within the boundaries of Butler, Hamilton, Preble and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of SWOCA consists of one representative from each of the participating members plus one representative from the fiscal agent. During fiscal year 2007, the School did not pay a significant amount to SWOCA. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

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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*

Dayton Technology Design High School
Montgomery County
840 Germantown Street
Dayton, OH 45407

To the Governing Board:

We have audited the financial statements of the business-type activities of the Dayton Technology Design High School, Montgomery County, (the School) as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 21, 2008. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

**Internal Control Over Financial Reporting
(Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency finding number 2007-001 described above is also a material weakness.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated April 21, 2008.

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 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated April 21, 2008.

We intend this report solely for the information and use of management, the Governing Board, and the Community School's sponsor. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

April 21, 2008

**DAYTON TECHNOLOGY DESIGN HIGH SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Material Weakness

Board Meetings

There were certain deficiencies noted with the School's Board's minutes for fiscal year 2007, as follows:

- The minutes were vague at times and rarely documented motions or resolutions.
- The minutes submitted for the March 5, 2007 and April 2, 2007 meetings were identical to the July 24, 2006 board minutes.
- The minutes did not document the Board's review and approval of financial reports as presented by the Treasurer, which could lead to financial statement misstatement.
- The minutes did not document the Board's review of the previous meetings minutes and subsequent approval of those minutes.

The Board's record of proceedings should provide accurate and descriptive information from every Board meeting. All decisions of the Board should be noted by approval of a resolution or motion. Financial reports presented to the Board on a monthly basis should be denoted as reviewed and approved. In addition, draft versions of the prior meeting minutes should be presented to the Board for their review and, if correct, approval. Any necessary changes to meeting minutes should be made and approved by the Board. Implementing these procedures would make for more complete and accurate records the Governing Board's actions, and assist in proper monitoring of financial reports.

FINDING NUMBER 2007- 002

Non-Compliance Finding

The Community School Sponsorship Contract between the Schools' governing authority and the Dayton City School District Board of Education (Sponsor) required that certain requirements be fulfilled as follows:

- Exhibit 3 "Governance and Administration Plan" of the Sponsorship Contract required that the Board of Directors shall be responsible for helping create, approve, and monitor the School's annual budget; establish policies and procedures for the operation and management of the School, and to secure funding for the School.
- Exhibit 4 "Assessment and Accountability Plan" of the Sponsorship Contract required that the Board of Directors (including school administrators) and the sponsor school district administrators shall meet at least bi-monthly to review the financial records of the School.
- Article I Section 1.02 and 2.02 of the Code of Regulations stipulates that an annual meeting be held for the election of directors and for any other business and that the Board should be comprised of five members.

**FINDING NUMBER 2007- 002
(Continued)**

The minutes of the meetings of the Governing Board did not document the Board's actions for creating, approving, or monitoring the School's budgetary and financial activity and/or policies and procedures via resolutions or motions. Although the Board met more frequently than bi-monthly, the minutes did not document the Board's approval of the School's financial records, or that an annual meeting was held for the election of the directors. Additionally, for part of fiscal year 2007 the Board only consisted of four of the five required members.

It is the Governing Board's responsibility to meet all the requirements outlined in the Sponsor Contract and the Code of Regulations. The Board should establish policies and procedures to completely and accurately record the activity of the Governing Board. Failure to abide by these requirements weakens the Board's ability to meet it's objectives as outlined.

Officials' Response: *We did not receive a response from Officials to the findings reported above.*



Mary Taylor, CPA
Auditor of State

DAYTON TECHNOLOGY DESIGN HIGH SCHOOL

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
MAY 22, 2008**