



Dave Yost • Auditor of State

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Dayton Regional STEM School
Montgomery County
1724 Woodman Drive
Kettering, Ohio 45420

To the Governing Board:

We have audited the accompanying basic financial statements of the Dayton Regional STEM School, Montgomery County, Ohio (the School), as of and for the year ended June 30, 2011, 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 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 Dayton Regional STEM School, as of June 30, 2011, 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 January 27, 2012, 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.

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

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

Dave Yost
Auditor of State

January 27, 2012

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The discussion and analysis of the Dayton Regional STEM School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2011. 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 notes to enhance their understanding of the School's financial performance.

Financial Highlights

Wright State University made payments on behalf of the School of \$951,100 to various vendors, which is a decrease of \$724,220 over the prior fiscal year.

The School entered into a lease agreement with the Dayton-Montgomery County Port Authority for the acquisition and renovations of a new building during fiscal year 2011.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how the School did financially during fiscal year 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and change in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of the School's net assets for fiscal year 2011 compared to fiscal year 2010.

**(Table 1)
Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Assets:			
Current Assets	\$2,741,801	\$545,500	\$2,196,301
Capital Assets, Net	3,889,104	58,127	3,830,977
Total Assets	<u>6,630,905</u>	<u>603,627</u>	<u>6,027,278</u>
Liabilities:			
Current Liabilities	1,143,321	13,056	1,130,265
Non-Current Liabilities	4,835,000		4,835,000
Total Liabilities	<u>5,978,321</u>	<u>13,056</u>	<u>5,965,265</u>
Net Assets:			
Invested in Capital Assets, Net of Debt	165,022	58,127	106,895
Restricted	107,225		107,225
Unrestricted	380,337	532,444	(152,107)
Total Net Assets	<u>\$ 652,584</u>	<u>\$590,571</u>	<u>\$ 62,013</u>

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Current assets increased \$2,196,301 due mainly to additional revenue received from the State of Ohio through House Bill 496 for capital improvements as well as cash held with fiscal agent received through the lease agreement with the Dayton-Montgomery County Port Authority, along with an increase in foundation payments. Capital assets, net increased \$3,830,977 and non-current liabilities increased \$4,835,000 due to the acquisition of property and a new building through a lease agreement with the Dayton-Montgomery County Port Authority. Current liabilities increased mainly due to unearned revenue from the State of Ohio through House Bill 496, along with increases in accounts and intergovernmental payables due to the School paying for more expenses instead of Wright State University through on behalf expenses.

Table 2 shows the changes in net assets for fiscal year 2011 compared to fiscal year 2010.

**(Table 2)
Change in Net Assets**

	2011	2010	Increase (Decrease)
Operating Revenues:			
Sales	\$ 34,719	\$ 221	\$34,498
State Foundation	1,216,980	534,421	682,559
Tuition and Fees	32,323	12,868	19,455
Donations	6,174	101,562	(95,388)
Miscellaneous	3,588	2,578	1,010
Total Operating Revenues	<u>1,293,784</u>	<u>651,650</u>	<u>642,134</u>
Operating Expenses:			
Fringe Benefits	6,310		6,310
Purchased Services	2,203,377	1,546,344	657,033
Rent	66,178	205,580	(139,402)
Materials and Supplies	200,436	120,515	79,921
Depreciation	41,444	8,910	32,534
Total Operating Expenses	<u>2,517,745</u>	<u>1,881,349</u>	<u>636,396</u>
Operating Loss	<u>(1,223,961)</u>	<u>(1,229,699)</u>	<u>5,738</u>
Non-Operating Revenues (Expenses):			
Federal and State Grants	293,563	62,641	230,922
Other Grants	955,095	1,690,478	(735,383)
Interest	2,660	1,664	996
Rent	7,000		7,000
Interest and Fiscal Charges	(57,498)		(57,498)
Total Non-Operating Revenues (Expenses)	<u>1,200,820</u>	<u>1,754,783</u>	<u>(553,963)</u>
Income (Loss) before Contributions	<u>(23,141)</u>	<u>525,084</u>	<u>(548,225)</u>
Capital Contributions	<u>85,154</u>	<u>65,487</u>	<u>19,667</u>
Change in Net Assets	<u>62,013</u>	<u>90,571</u>	<u>(528,558)</u>
Net Assets at Beginning of Year	<u>590,571</u>		<u>590,571</u>
Net Assets at End of Year	<u>\$ 652,584</u>	<u>\$ 590,571</u>	<u>\$ 62,013</u>

The School's business-type activities consist of enterprise activity. STEM schools receive no support from taxes.

State foundation increased due to the School being in operation a full fiscal year and an increase in the number of students over the prior fiscal year. Federal and State grants increased due mainly to an increase in federal grants received during the fiscal year. Other grants decreased due to a decrease in on behalf payments made by Wright State University as the School paid for more of their own expenses.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Purchased services expenses increased \$657,033 due mainly to an increase in professional and technical services during the fiscal year. Rent expenses decreased \$139,402 as a result of a one-time improvement allowance that the School paid during fiscal year 2010 for their rental agreement. Materials and supplies expenses increased \$79,921 due to items purchased related to the new facilities that were not capitalized.

Wright State University donated \$85,154 in capital assets to the School during fiscal year 2011.

Capital Assets

At the end of fiscal year 2011, the School had \$3,889,104 invested in capital assets, net of depreciation. Capital asset additions included land, construction in progress, buildings and improvements, and electronic equipment for the classrooms. For more information on capital assets see Note 8 to the basic financial statements.

Debt

At the end of fiscal year 2011, the School had \$5,000,000 in long-term obligations outstanding due to a capital lease. For more information on debt see Note 9 to the basic financial statements.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Doug Bixler, Treasurer at Dayton Regional STEM School, 1724 Woodman Dr, Kettering, OH 45420, or e-mail at dt_treas@mdeca.org.

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**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:

Current Assets:

Equity in Pooled Cash	\$202,658
Intergovernmental Receivables	133,225
Deferred Charges	196,177
Cash Held in Escrow with Trustee	1,130,000
Cash Held in Escrow with Fiscal Agent	1,079,741
Total Current Assets	<u>2,741,801</u>

Non-Current Assets:

Land	824,870
Construction in Progress	2,187,267
Depreciable Capital Assets, Net	876,967
Total Non-Current Assets	<u>3,889,104</u>

Total Assets	<u>6,630,905</u>
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Liabilities:

Current Liabilities:

Accounts Payable	140,030
Intergovernmental Payable	125,791
Unearned Revenue	712,500
Capital Leases Payable	165,000
Total Current Liabilities	<u>1,143,321</u>

Non-Current Liabilities:

Capital Leases Payable	4,835,000
Total Liabilities	<u>5,978,321</u>

Net Assets:

Invested in Capital Assets, Net of Debt	165,022
Restricted	107,225
Unrestricted	380,337
Total Net Assets	<u><u>\$652,584</u></u>

See accompanying notes to the basic financial statements.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Enterprise
Operating Revenues:	
Sales	\$34,719
State Foundation	1,216,980
Tuition and Fees	32,323
Donations	6,174
Miscellaneous	3,588
Total Operating Revenues	1,293,784
Operating Expenses:	
Fringe Benefits	6,310
Purchased Services	2,203,377
Rent	66,178
Materials and Supplies	200,436
Depreciation	41,444
Total Operating Expenses	2,517,745
Operating Loss	(1,223,961)
Non-Operating Revenues (Expenses):	
Federal and State Grants	293,563
Other Grants	955,095
Interest	2,660
Rent	7,000
Interest and Fiscal Charges	(57,498)
Total Non-Operating Revenues	1,200,820
Loss Before Contributions	(23,141)
Capital Contributions	85,154
Change in Net Assets	62,013
Net Assets at Beginning of Year	590,571
Net Assets at End of Year	\$652,584

See accompanying notes to the basic financial statements.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Sales	\$34,719
Cash Received from State of Ohio	1,216,980
Cash Received from Donations	6,174
Cash Received from Students	32,323
Cash Received from Miscellaneous Sources	3,588
Cash Payments for Fringe Benefits	(6,310)
Cash Payments to Suppliers for Goods and Services	(2,217,226)
Net Cash Used for Operating Activities	<u>(929,752)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	889,372
Other Grants Received	955,095
Rent	7,000
Net Cash Provided by Noncapital Financing Activities	<u>1,851,467</u>

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(3,787,267)
Inception of Capital Lease	5,000,000
Interest and Fiscal Charges	(156,250)
Capital Lease Issuance Cost	<u>(97,425)</u>
Net Cash Provided by Capital and Related Financing Activities	959,058

Cash Flows from Investing Activities:

Interest	<u>2,660</u>
Net Increase in Cash and Cash Equivalents	1,883,433
Equity in Pooled Cash at Beginning of Year	<u>528,966</u>
Equity in Pooled Cash at End of Year	<u><u>\$2,412,399</u></u>

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss	<u>(\$1,223,961)</u>
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Adjustments to Reconcile Operating

Loss to Net Cash Used for Operating Activities:

Depreciation	41,444
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Changes in Liabilities:

Increase in Accounts Payable	126,974
Increase in Intergovernmental Payable	125,791
Total Adjustments	<u>294,209</u>

Net Cash Used for Operating Activities	<u><u>(\$929,752)</u></u>
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Non-Cash Transactions:

The School had outstanding intergovernmental receivables related to non-operating grants of \$133,225 at June 30, 2011.

During fiscal year 2011, the School had \$712,500 in unearned revenue outstanding.

During fiscal year 2011, the School received \$85,154 in donated capital assets.

See accompanying notes to the basic financial statements.

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**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Dayton Regional STEM School (the "School") is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3326 to maintain and provide a school exclusively for any science, technology, engineering, math, and related teaching services. The School currently serves grades eight through 10 and will grow-out in the following two fiscal years ultimately serving grades six through 12. The School, which is part of the state's education program, is independent of any school district and serves the areas of Clark, Montgomery, and Montgomery Counties. The School is capable of suing and being sued, contracting and being contracted with, acquiring, holding, possessing, and disposing of real and personal property, taking and holding in trust for the use and benefit of the School, any grant or devise of land and any donation or bequest of money or other personal property.

The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School was formed from a grant through Wright State University from the Ohio STEM Learning Network, which is managed by Battelle. The Ohio STEM Learning Network is a private non-profit program whose objective is to accelerate the spread of science, technology, engineering, and mathematics education innovations across Ohio using a network and systems oriented approach. The Ohio STEM Learning Network is funded through philanthropic cash and in-kind investments provided by private donors.

The School operates under an 11 member, self-appointed, Governing Board that consists of representatives of the regional organizations that were partnered to establish the School and shall not exceed 15 members. The Governing Board is responsible for adopting policies and procedures that govern the School and supervising the School principal.

The School participates in two jointly governed organizations: Metropolitan Dayton Educational Cooperative Association and Southwestern Ohio Educational Purchasing Council. See Note 13 for information on these organizations.

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.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

During the fiscal year, the School segregates transactions related to certain School functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For financial reporting, the School uses a single enterprise fund presentation.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise fund reporting focuses on the determination of the change in net assets, financial positions and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. The enterprise activity is accounted for using a flow of economic resources measurement focus. Within this measurement focus, all assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net assets. The statement of cash flows provides information about how the School finances and meets its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Basis of accounting relates to the timing of the measurements made. The School's financial statements are prepared using the accrual basis of accounting.

D. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

E. Equity in Pooled Cash

The School's Treasurer accounts for all monies received by the School. The School maintains three interest bearing depository accounts and all funds of the School are maintained in these accounts. These accounts are presented on the Statement of Net Assets as "Equity in Pooled Cash". The School did not have any investments during fiscal year 2011.

F. Revenues – Exchange and Non-Exchange Transactions

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 School 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

G. Expenses

Expenses are recognized at the time they are incurred.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the School. These revenues are primarily foundation payments from the State and payments made on behalf of the School by Wright State University. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

J. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. 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 remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

K. 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 those estimates.

L. Budgetary Process

Unlike other public schools located in the State of Ohio, STEM schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Schools contract with the Sponsor. Ohio Rev. Code 5705.391 does require the School to prepare a five-year projection.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of \$500 for all capital assets. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated, except land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Furniture, Fixtures and Equipment	5 - 30 years

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the fund of School.

In general, fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the fund. Capital leases are recognized as an expenditure in the fund when due.

3. RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Education Jobs	\$ 71,634
Race to the Top	6,250
Title II-D	97
Part B IDEA	48,832
Improving Teacher Quality	1,268
Wright State University	5,144
Total Intergovernmental Receivable	<u><u>\$133,225</u></u>

4. DEPOSITS AND INVESTMENTS

Monies held by the School are classified by State statute into three categories.

Active monies are public deposits determined to be necessary to meet current demands upon the School treasury. Active monies must be maintained either as cash in the School Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Inactive deposits are public deposits that the Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Interim monies held by the School may be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

The School maintains two depository accounts with Wright-Patt Credit Union, Inc., which is not an eligible depository institution per Ohio Revised Code 135.03.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. During fiscal year 2011, the School participated in the Southwestern Ohio Educational Purchasing Council for liability, fleet, and property insurance.

Settled claims have not exceeded this commercial coverage since the School's inception in fiscal year 2010. There have been no significant reduction in insurance coverage during fiscal year.

6. RELATED PARTY TRANSACTIONS

The School contracts with Wright State University to utilize certain personnel and other resources. During fiscal year 2011, the Wright State University paid \$951,100 from grants received from various sources on behalf of the School for personnel (all teaching and administrative personnel are employees of Wright State University); pension and retirement benefits; furniture, equipment, maintenance expenses, supplies, and building lease payments. Wright State University also donated \$85,154 in capital assets to the School during fiscal year 2011.

The School entered into a guaranty agreement with the Wright State University Foundation, Inc. March 1, 2011 for the capital lease with the Dayton-Montgomery County Port Authority. The Wright State University Foundation, Inc. guarantees the full and prompt payment, when due, of the lease payments, not to exceed \$3,000,000.

7. CAPITAL LEASE

During the fiscal year, the School District entered into a capitalized lease for land, buildings and improvements and construction in progress. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The land, buildings and improvements, and construction in progress acquired by the lease were initially capitalized in the amount of \$3,666,584. A corresponding liability of \$5,000,000 was recorded on the Statement of Net Assets. The difference of \$1,333,416 consisted of \$253,675 for issuance costs and capitalized interest, along with \$1,079,741 of cash held with fiscal agent. Issuance costs in the amount will be amortized over the life of the lease and capitalized interest will be amortized over the first six months of the lease. The cash held with fiscal agent will be spent on renovations to the new building as needed. The first payment on the lease will be made during fiscal year 2012.

The assets acquired through the capital lease are as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Asset:			
Land	\$ 824,870		\$ 824,870
Construction in Progress	2,187,267		2,187,267
Buildings and Improvements	654,447	(\$13,089)	641,358
Totals	<u>\$3,666,584</u>	<u>(\$13,089)</u>	<u>\$3,653,495</u>

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. CAPITAL LEASE (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2011.

Fiscal Year Ending June 30,	Total Payments
2012	\$ 169,478
2013	224,302
2014	234,102
2015	233,895
2016	233,687
2017-2021	1,325,068
2022-2026	2,623,204
Total	5,043,736
Less: Amount Representing Interest	(43,736)
Present Value of Net Minimum Lease Payments	\$5,000,000

8. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
Capital Assets Not Being Depreciated:				
Land		\$ 824,870		\$ 824,870
Construction in Progress		2,187,267		2,187,267
Total Capital Assets Not Being Depreciated		3,012,137		3,012,137
Capital Assets Being Depreciated:				
Buildings and Improvements		775,130		775,130
Furniture, Fixtures and Equipment	\$67,037	85,154		152,191
Total Capital Assets Being Depreciated	67,037	860,284		927,321
Less Accumulated Depreciation:				
Buildings and Improvements		(15,503)		(15,503)
Furniture, Fixtures and Equipment	(8,910)	(25,941)		(34,851)
Total Accumulated Depreciation	(8,910)	(41,444)		(50,354)
Total Capital Assets Being Depreciated, Net:	58,127	818,840		876,967
Capital Assets, Net	\$58,127	\$3,830,977	\$0	\$3,889,104

Additions to capital assets include \$85,154 in assets donated by Wright State University.

9. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

	Amount Outstanding 6/30/10	Additions	Deductions	Amount Outstanding 6/30/11	Amounts Due Within One Year
Leases Payable	\$0	\$5,000,000	\$0	\$5,000,000	\$165,000

The School entered into a lease agreement with the Dayton-Montgomery Port Authority during fiscal year 2011. The Dayton-Montgomery County Port Authority purchased a building and paid for renovations through the lease agreement.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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 full-time equivalency (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.

11. PURCHASED SERVICES

For the fiscal year ended June 30 2011, purchased services expenses for services rendered by various vendors were as follows:

Professional and Technical Services	\$ 641,261
Travel	1,440
Property Services	551,069
Communication	6,744
Wright State University	987,753
Other	15,110
Total	<u>\$2,203,377</u>

12. AGREEMENT WITH WRIGHT STATE UNIVERSITY

On August 3, 2009, the School contracted with Wright State University (WSU) to utilize certain WSU personnel and other resources as agreed upon, to provide services and facilitate operation of the School. The term of the contract began on August 3, 2009 and will continue to remain in full force and effect upon the same terms and conditions for successive periods of one year.

WSU Personnel

WSU will hire personnel mutually agreeable to the School to carry out the School's activities. The specific terms of their compensation, the definition of their duties and the allocation of their time and responsibilities between the work of the School and other duties to WSU shall be determined (and may be changed) jointly by the School and WSU. WSU shall be reimbursed for the use of WSU Personnel.

Responsibility for and Compensation of Personnel

WSU is responsible for all payroll and employment taxes, and other customary employer duties and responsibilities for the personnel during the term of the agreement. WSU provides appropriate workers' compensation coverage for employees throughout the term of the agreement and further provided all employee benefits for the employees customarily provided to others in like positions at WSU.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

12. AGREEMENT WITH WRIGHT STATE UNIVERSITY (Continued)

Personnel Employed by WSU

The Personnel designated to provide services under the agreement shall remain employees of WSU and shall be subject to any employment agreements between the employees and WSU. WSU shall not be required to hire or retain personnel utilized by the School unless funding for such is approved and available to the School.

WSU Resources

The School may utilize certain resources of WSU for use in its activities upon mutual agreement with WSU. The School shall reimburse WSU, as mutually agreed upon, for any costs directly incurred as a result of the School's use of such resources. WSU may choose to offer the School fiscal support and in-kind contributions of support at its discretion.

School Property

Files, reports, articles, electronic records and other such materials created or developed by WSU employees while performing services for the School are and will remain the School's property.

Insurance

Insurance customarily carried by those in the operation of an educational institution shall be maintained by each party. To the extent permitted by law and provided that the parties receive reciprocal treatment, each party shall name the other as an additional insured. The parties agree to notify each other in writing within 10 days of loss coverage or material change in such policies.

Reimbursement for Personnel and Resources

The School will reimburse WSU for all costs specifically applicable to the School's use of personnel and resources provided by WSU under the agreement, unless WSU at its discretion chooses not to seek reimbursement. Such costs are to include those incurred for salaries, taxes, insurance, employee benefits, amounts reimbursed for any out-of-pocket expenses (including but not limited to travel authorized by the School) incurred by personnel that are specifically allocable to the activities of the School, and any others directly associated with the use of personnel and resources of WSU by the School in its operations. WSU shall not be required to hire or retain personnel utilized by the School unless funding for such is approved and available to the School.

Records and Invoicing

Both the School and WSU shall keep records quantifying the use of WSU personnel and resources subject to reimbursement under the agreement. On the first of each month, WSU shall invoice the School for the personnel and resources provided in the previous month under the agreement which is to include a detailed accounting of the costs to be reimbursed. The School shall have five business days to challenge, in writing, the costs allocated to it under the amount billed. Any dispute as to the amount due shall be settled by the parties. The parties shall review their records and invoices/payments on a periodic basis (but no less often than annually) and shall make such adjustments as the parties deem necessary by mutual agreement to reflect the actual use of WSU personnel and other resource by the School.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

12. AGREEMENT WITH WRIGHT STATE UNIVERSITY (Continued)

Payment of Invoice

Payment of invoices by the School shall be made by the fifteenth day of the month in which the invoice is received. Notwithstanding the forgoing, in the event WSU has funds in a restricted account that is allocated for use by the School, such funds are to be used to offset any amounts owed by the School to WSU for use of personnel and resources before the School may be required to make payment out of its operating funds. Restricted funds may not be used to offset amounts owed by the School until after the five day period for the School to challenge the invoice has lapsed for the month in which the invoice was sent reflecting such expense and the use of such funds by WSU for the payment of expenses shall be reflected in the monthly invoice sent to the School in the subsequent month.

Termination

Either party may terminate the agreement at any time by providing 90 days written notice to the other party. A comprehensive review will occur every two calendar years by WSU and the School to begin on May 1 of odd numbered years and to conclude with a decision to continue or discontinue the agreement by June 30th of those odd number years.

13. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association:

The School is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts in a geographic area determined by the Ohio Department of Education. 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 school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School paid \$3,695 to MDECA for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as executive director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council:

The School participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts and educational service centers in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2011, the School paid \$15,632 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Dayton Regional STEM School
Montgomery County
1724 Woodman Drive
Kettering, Ohio 45420

To the Governing Board:

We have audited the financial statements of the Dayton Regional STEM School, Montgomery County, (the School) as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 27, 2012. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

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 more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of finds as item 2011-001.

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated January 27, 2012.

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

We intend this report solely for the information and use of management, Sponsor, Governing Board, and others within the School. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

January 27, 2012

DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2011

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

FINDING NUMBER 2011-001

NONCOMPLIANCE

Ohio Rev. Code Section 135.03 provides that any national bank, any bank, federal savings association, any savings and loan association or savings bank doing business under authority granted by the superintendent of financial institutions, or doing business under authority granted by the regulatory authority of another state of the United States, located in this state, is eligible to become a public depository, subject to sections 135.01 to 135.21 of the Revised Code.

Eligible financial institutions under the above mentioned section include national banks or Ohio savings banks, but do not include credit unions. At June 30, 2011 the School held over 95% of its deposits at Wright-Patt Credit Union.

Additionally, **Ohio Rev. Code Section 135.18(A)** states that the treasurer, before making the initial deposit in a public depository pursuant to an award made under sections 135.01 to 135.21 of the Revised Code, except as provided in section 135.144 of the Revised Code, shall require the institution designated as a public depository to pledge to and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public moneys to be at the time so deposited, over and above the portion or amount of such moneys as is at that time insured by the federal deposit insurance corporation or by any other agency or instrumentality of the federal government. In the case of any deposit other than the initial deposit made during the period of designation, the amount of the aggregate market value of securities required to be pledged and deposited shall be equal to the difference between the amount of public moneys on deposit in such public depository plus the amount to be so deposited, minus the portion or amount of the aggregate as is at the time insured as provided in this section. The treasurer may require additional eligible securities to be deposited to provide for any depreciation which may occur in the market value of any of the securities so deposited.

Finally, **Ohio Rev. Code Section 135.181 (B)** states that in lieu of the pledging requirements prescribed in sections 135.18 and 135.37 of the Revised Code, an institution designated as a public depository at its option may pledge a single pool of eligible securities to secure the repayment of all public moneys deposited in the institution and not otherwise secured pursuant to law, provided that at all times the total market value of the securities so pledged is at least equal to one hundred five per cent of the total amount of all public deposits to be secured by the pooled securities that are not covered by any federal deposit insurance. Each institution shall carry in its accounting records at all times a general ledger or other appropriate account of the total amount of all public deposits to be secured by the pool, as determined at the opening of business each day, and the total market value of securities pledged to secure such deposits.

There was no indication that the credit union had specific securities or pooled securities pledged to cover the uninsured deposits of the School.

The School should revisit its depositories to verify that they are in compliance with the Ohio law. This would allow the School to obtain depositories that are either federally insured or covered by pooled collateral, thus reducing the risk of the School losing money in event of a bank failure.

**FINDING NUMBER 2011-001
(Continued)**

Official's Response: Dayton Regional STEM School Reacted to the finding of the Fiscal Year 2010 audit as quickly as possible. It is very difficult to close an account when you have daily operations on going. This situation was completely resolved as of August 18, 2011 with the closing of the WPCU account.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Ohio Rev. Code Section 135.03, 135.18(A), and 135.181(B) – authorized depository and financial institution pledging securities.	No	Not corrected – Repeated as Finding 2011-001
2010-02	Ohio Rev. Code Section 3326.21(A) and 3313.24(A) – compensation of treasurer.	Yes	

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Independent Accountants' Report on Applying Agreed-Upon Procedure

Dayton Regional STEM School
Montgomery County
1724 Woodman Drive
Kettering, Ohio 45420

To the Governing Board:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Dayton Regional STEM School (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School amended its anti-harassment policy at its meeting on May 11, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 27, 2012

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DAYTON REGIONAL STEM 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
MARCH 13, 2012**