

Pathway School of Discovery

*Financial Statements and Required
Supplementary Information as of and
for the Year Ended June 30, 2006, and
Independent Auditors' Reports*



Mary Taylor, CPA

Auditor of State

Board of Directors
Pathway School of Discovery
173 Avondale Drive
Dayton, Ohio 45404

We have reviewed the *Independent Auditors' Report* of the Pathway School of Discovery, Montgomery County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Pathway School of Discovery is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 6, 2007

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PATHWAY SCHOOL OF DISCOVERY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pathway School of Discovery
Dayton, Ohio 45404

We have audited the accompanying statement of net assets of Pathway School of Discovery (the "Academy") as of June 30, 2006, and the related statement of revenues, expenses, and changes in net assets, and statement of cash flows for the year ended June 30, 2006. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on the 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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 respective financial position of the Academy as of June 30, 2006, and the respective changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 to 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Academy's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 15, 2006

PATHWAY SCHOOL OF DISCOVERY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2006

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

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

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

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows, report the governmental activities for the Academy, which encompass all the Academy's services, including instruction, support services and food services. State aid (based on student count) and state and federal grants finance most of these activities. The Academy has entered into a management agreement with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the management agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

The table below provides a summary of the Academy's net assets as of June 30:

	2006	2005
Assets – current	\$ 165,952	\$ 526,682
Liabilities – current	<u>117,971</u>	<u>497,106</u>
Net assets – unrestricted	<u>\$ 47,981</u>	<u>\$ 29,576</u>

The unrestricted net assets of governmental activities represent the accumulated results of life to date operations. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the Statement of Revenues, Expenses, and Changes in Net Assets.

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

	2006	2005
Operating revenues:		
State aid	\$3,620,038	\$ 2,880,663
Other state sources	205,719	131,878
Local Sources	<u>122,491</u>	<u>75,863</u>
Total operating revenue	<u>3,948,248</u>	<u>3,088,404</u>
Operating expenses—		
Contracted service fee	<u>4,780,193</u>	<u>4,563,121</u>
Total operating expenses	<u>4,780,193</u>	<u>4,563,121</u>
Operating loss	<u>(831,945)</u>	<u>(1,474,717)</u>
Nonoperating revenues:		
Federal grants	464,457	704,241
Private sources - National Heritage Academies, Inc.	<u>385,893</u>	<u>791,962</u>
Total nonoperating revenues	<u>850,350</u>	<u>1,496,203</u>
Change in net assets	<u>\$ 18,405</u>	<u>\$ 21,486</u>

As reported in the Statement of Revenues, Expenses, and Changes in Net Assets, the cost of governmental activities was \$4,780,193. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. Revenues – Private sources – National Heritage Academies, Inc. represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

The Academy experienced an increase in net assets of \$18,405 in 2006. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

General Economic Factors—The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2007.

Contacting the Academy's Financial Management—The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste 201, Grand Rapids, MI 49512.

PATHWAY SCHOOL OF DISCOVERY

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS

CURRENT ASSETS:

Cash	\$ 56,701
Due from governmental revenue sources	<u>109,251</u>

TOTAL	<u>\$ 165,952</u>
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LIABILITIES AND NET ASSETS

LIABILITIES:

Deferred revenue	\$ 92,386
Due to National Heritage Academies, Inc.	<u>25,585</u>

Total liabilities	117,971
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NET ASSETS—Unrestricted	<u>47,981</u>
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TOTAL	<u>\$ 165,952</u>
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See notes to financial statements.

PATHWAY SCHOOL OF DISCOVERY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2006

OPERATING REVENUES:	
State aid	\$3,620,038
Other state sources	205,719
Local sources	<u>122,491</u>
Total operating revenues	3,948,248
OPERATING EXPENSES—Contracted Service Fee	<u>4,780,193</u>
OPERATING LOSS	<u>(831,945)</u>
NONOPERATING REVENUES:	
Federal grants	464,457
Private sources—National Heritage Academies, Inc.	<u>385,893</u>
Total nonoperating revenues	<u>850,350</u>
CHANGE IN NET ASSETS	18,405
NET ASSETS—Beginning of year	<u>29,576</u>
NET ASSETS—End of year	<u>\$ 47,981</u>

See notes to financial statements.

PATHWAY SCHOOL OF DISCOVERY

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from state sources	\$ 3,881,199
Cash received from local sources	122,491
Cash paid for goods and services	<u>(5,248,884)</u>
Net cash used in operating activities	<u>(1,245,194)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Support from private sources—National Heritage Academies, Inc.	385,893
Federal grants received	<u>855,767</u>
Net cash provided by noncapital financing activities	<u>1,241,660</u>
NET DECREASE IN CASH	(3,534)
CASH—Beginning of year	<u>60,235</u>
CASH—End of year	<u>\$ 56,701</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
OPERATING LOSS	<u>\$ (831,945)</u>
CHANGES IN ASSETS AND LIABILITIES:	
Intergovernmental receivable	58,272
Deferred revenue	(2,830)
Due to National Heritage Academies, Inc.	<u>(468,691)</u>
Total adjustments	<u>(413,249)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$(1,245,194)</u></u>

See notes to financial statements.

PATHWAY SCHOOL OF DISCOVERY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2006

1. NATURE OF OPERATIONS

Pathway School of Discovery (the “Academy”) is an Ohio Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under an approved charter received from Lucas County Educational Service Center (“LCESC”), which is responsible for oversight of the Academy’s operations. The charter will automatically renew on a year-to-year basis, unless at least 90 days written notice is given by either the Academy or LCESC. The Academy provides education to students in kindergarten through the seventh grade, at no cost to the parent. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy was established and is operated as a non-profit corporation under Chapter 1702 of the Ohio Revised Code and is exempt from taxation as a governmental entity pursuant to Internal Revenue Code Section 115. The Academy qualifies for public charity status by meeting the requirements of Internal Revenue Code Sections 509(1) and 170(b)(A)(ii).

The Academy’s primary source of revenue is provided by the State of Ohio and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and was funded through payments from July 2005 through June 2006.

The Board of Directors of the Academy has entered into a management agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The agreement will automatically renew on a year-to-year basis, unless at least 90 days written notice of intent to terminate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. NHA provides a spending account to the Board of Directors for discretionary expenditures on an annual basis. Revenues – private sources – National Heritage Academies, Inc. represent a contribution granted by NHA for the excess of Academy expenditures over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Academy conform to accounting principles generally accepted in the United States of America applicable to governmental nonprofit organizations. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As permitted by generally accepted accounting principles, the Academy has elected to apply only applicable Financial Accounting Standards Board statements and interpretations issued before November 30, 1989.

Basis of Presentation—The Academy’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.

The Academy reports using the American Institute of Certified Public Accountants not-for-profit model and accordingly uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may also be used to account for any activity for which a fee is charged to external users for goods or services.

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

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

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

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

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

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

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

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

Certain grants and entitlements are recognized as nonoperating revenue in the accounting period in which all eligibility requirements have been met.

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

The Academy also participates in various federal and state programs through the Ohio Department of Education. The programs the Academy participated in during the fiscal year 2006, of which they were still owed for at June 30, 2006, include Title I, Title IIA, Title IID, Title IV, Title V, and IDEA Part B. Revenue to be received from these programs is recognized as nonoperating revenue in the accompanying financial statements.

Net Assets—Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At fiscal year end, the Academy had no restricted net assets.

Due to National Heritage Academies, Inc.—This amount consists of payments due to National Heritage Academies, Inc. for management services rendered in fiscal year 2006.

3. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System—NHA, on behalf of employees at the Academy, contributes to the School Employees Retirement System (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and NHA is required to contribute at an actuarially determined rate. The current NHA rate is 14% of annual covered payroll. A portion of the NHA’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. NHA’s required contributions for pension obligations to SERS for the fiscal year ended June 30, 2006, were \$35,486, and 100% was contributed for fiscal year 2006.

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

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 into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will

transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A Defined Benefit 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.

Plan members are required to contribute 10% of their annual covered salaries. NHA was required to contribute 14%. 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. NHA's required contributions for pension obligations for the fiscal year ended June 30, 2006, were \$181,624 and 100% was contributed for fiscal year 2006.

4. POST-EMPLOYMENT BENEFITS

STRS Ohio provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code ("R.C."), the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. For NHA, the amount to fund health care benefits, including the surcharge, was \$4,092 for fiscal year 2006.

5. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained through Indiana Insurance Company. General liability coverage provides \$1,000,000 per occurrence and \$3,000,000 in the aggregate with no deductible. The Indiana Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate. There have been no significant reductions in insurance coverage during fiscal year 2006, and claims did not exceed coverage during the past three fiscal years.

6. CONTINGENCIES

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

State funding—The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in the State funding being adjusted. The Academy does not anticipate any material adjustments to State funding for fiscal year 2006, as a result of such a review.

Litigation—A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for a review on February 16, 2005. On October 25, 2006, the Ohio Supreme Court ruled that publicly funded, privately operated charter schools are constitutional.

On June 9, 2004, The Ohio Education Association, working through three named plaintiffs, filed a suit in Dayton's U.S. District Court claiming that Ohio's charter school program violates the equal protection and due process clauses of the Fourteenth Amendment to the United States Constitution. The effect of this suit, if any, on the Academy is not presently determinable.

7. STATE SCHOOL FUNDING DECISION

In 2002, the Ohio State Supreme Court (the "Court") reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Court has also directed the State to develop a new system of school funding. In 2003, the Ohio State Supreme Court and the U.S. Court of Appeals have declined to further consider the case. The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

8. CONTRACTED SERVICE FEE

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

Instruction:	
Basic instruction	\$1,763,518
Added needs	213,267
Special education	266,365
Support services:	
Pupil services	102,942
Instructional staff	144,242
Board of education	44,832
Executive administration	214,675
State and federal relations	28,044
Office of the principal	313,505
Business support services	55,271
Operations and maintenance	1,107,260
Central services	252,152
Food services	<u>274,120</u>
Total contracted service fee	<u>\$4,780,193</u>

* * * * *

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Pathway School of Discovery
Dayton, Ohio 45404

We have audited the financial statements of Pathway School of Discovery (the "Academy") as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management of the Academy, National Heritage Academies, Inc., and Lucas County Education Service Center and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 15, 2006



Mary Taylor, CPA
Auditor of State

PATHWAY SCHOOL OF DISCOVERY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 18, 2007**