



Rea & associates *a brighter way*

Garfield Academy

Stark County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2013



Dave Yost • Auditor of State

Board of Directors
Garfield Academy
1379 Garfield Avenue SW
Canton, Ohio 44706

We have reviewed the *Independent Auditor's Report* of the Garfield Academy, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2012 through June 30, 2013. 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 Garfield Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 29, 2014

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**GARFIELD ACADEMY
STARK COUNTY**

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December 8, 2013

To the Board of Directors
Garfield Academy
1379 Garfield Avenue SW
Canton, OH 44706

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Garfield Academy, Stark County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the School, as of June 30, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

Supplementary Information

Our audit was conducted to opine on the School's basic financial statements taken as a whole. The Schedule of Expenditures of Federal Awards presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements.

The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We subjected the schedule to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2013 on our consideration of the School's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

The discussion and analysis of the Garfield Academy's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the financial statements and the notes to the 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 June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, Net Position decreased \$1,673, which represents a 265 percent decrease from 2012. This decrease was due to a reduction in grants received during the year.
- Total assets decreased \$89,024, which represents a 56.9 percent decrease from 2012. This decrease was due to the decrease in grants funding receivable.
- Liabilities decreased \$87,351, which represents a 56.1 percent decrease from 2012. This decrease was due to the decrease in grants funding payable.

Using this Financial Report

This report consists of three parts, the MD&A, the financial statements, and notes to the financial statements. The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Statement of Net Position

The Statement of Net Position answers the question of how the School performed financially during 2013. This statement includes all assets, liabilities, and Net Position, both financial and capital and current and long-term, using the accrual basis of accounting, which is 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 expended.

Table 1 provides a summary of the School's Net Position for fiscal year 2013 and fiscal year 2012.

(Table 1)

Statement of Net Position

	2013	2012
Assets		
Current Assets	\$ 67,433	\$ 156,457
Total Assets	67,433	156,457
Liabilities		
Current Liabilities	68,474	155,825
Net Position		
Unrestricted	(1,041)	632
Total Net Position	\$ (1,041)	\$ 632

Total assets were \$67,433, primarily comprised of grants funding receivable at year-end. Liabilities were \$68,474 due to grants funding payable amounts at year-end. The School operates under a management agreement with BHA Canton, LLC. Under the terms of the management agreement, BHA Canton, LLC is paid a 100% of the School's grant funding that is received (see notes to the financial statements, note 7).

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Statement of Revenues, Expenses, and Changes in Net Position

Table 2 shows the change in Net Position for fiscal year 2013 and 2012, as well as a listing of revenues and expenses.

(Table 2)

Change in Net Position

	2013	2012
Operating Revenue		
State Aid	\$ 1,807,311	\$ 1,979,568
Non-Operating Revenues		
Grants	519,260	344,975
Miscellaneous	464	-
Total Revenues	2,327,035	2,324,543
Operating Expenses		
Purchased Services: Management Fees	1,730,932	1,900,385
Purchased Services: Grant Programs	519,260	344,975
Sponsorship Fees	54,064	59,387
Board of Education	786	850
Legal	6,615	12,812
Advertising	502	320
Insurance	10,355	5,157
Auditing and Accounting	6,117	-
Miscellaneous	77	25
Total Operating Expenses	2,328,708	2,323,911
Change in Net Position	\$ (1,673)	\$ 632

State aid revenues decreased in 2013 due to a decrease in full-time equivalent (FTE) enrollment. The School's most significant expense, "Purchased services: management fees" also decreased due to the significant decrease in enrollment. "Purchased services: grant programs" decreased due to no ARRA funding in fiscal year 2013, and as a result, less was paid to BHA Canton, LLC based on the management agreement. The agreement provides that specific percentages of the revenues received by the School will be paid to BHA Canton, LLC to fund operations.

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Capital Assets

At the end of fiscal year 2013 the School had no capital assets.

Current Financial Issues

Garfield Academy received revenue for 237 students in 2013. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from state aid. Per pupil revenue from state aid for the School averaged \$7,626 in fiscal year 2013. The School receives additional revenues from grant subsidies.

Although there is a possibility that state aid will be cut in future years due to the economic climate, the School feels that the relationship with the management company will insulate them from any significant change.

Contacting the School's Financial Management

This financial report is designed to provide our readers 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 the Fiscal Officer at 121 South Main Street, Suite 200, Akron, Ohio 44308.

**GARFIELD ACADEMY
STARK COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2013**

ASSETS

Current assets

Cash and cash equivalents

\$ 2,201

Grants funding receivable

65,232

Total assets

67,433

LIABILITIES

Current liabilities

Accounts payable

1,221

Grants funding payable

67,253

Total liabilities

68,474

NET POSITION

Unrestricted

(1,041)

Total net position

\$ (1,041)

The accompanying notes to the financial statements are an integral part of this statement.

**GARFIELD ACADEMY
STARK COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

OPERATING REVENUE

State aid	\$ 1,807,311
Total operating revenue	<u>1,807,311</u>

OPERATING EXPENSES

Purchased services: management fees	1,730,932
Purchased services: grant programs	519,260
Sponsorship fees	54,064
Legal	6,615
Advertising	502
Insurance	10,355
Auditing and Accounting	6,117
Board of education	786
Miscellaneous	<u>77</u>
Total operating expenses	<u>2,328,708</u>
Operating loss	<u>(521,397)</u>

NON-OPERATING REVENUE

Grants	519,260
Miscellaneous	<u>464</u>
Total non-operating revenue	<u>519,724</u>
Change in net position	(1,673)
Net position, July 1, 2012	<u>632</u>
Net position, June 30, 2013	<u>\$ (1,041)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**GARFIELD ACADEMY
STARK COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from state and federal sources	\$ 1,848,195
Cash payments to suppliers for goods and services	<u>(2,410,902)</u>
Net cash used for operating activities	<u>(562,707)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from grant programs	<u>547,160</u>
Net decrease in cash and cash equivalents	(15,547)
Cash and cash equivalents at beginning of year	<u>17,748</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,201</u></u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating loss	<u>\$ (521,397)</u>
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Changes in assets and liabilities:	
State funding receivable	40,884
Prepaid expense	5,157
Sponsorship fees payable	(1,227)
Accounts payable	(266)
Grants funding payable	(39,073)
Continuing fees payable	<u>(46,785)</u>
Total adjustments	<u>(41,310)</u>
Net cash used for operating activities	<u><u>\$ (562,707)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Garfield Academy (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 contracts with BHA Canton, LLC for most of its functions (see note 7).

The School signed a contract with Buckeye Community Hope Foundation (Buckeye) to operate for a period from July 1, 2011 through June 30, 2015. The School operates under a self-appointing, five-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by BHA Canton, LLC. The facility is staffed with teaching personnel employed by BHA Canton, LLC, who provide services to 237 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described on the following pages.

A. BASIS OF PRESENTATION

The School's financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in Net Position, financial position and cash flows.

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. 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) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total Net Position. 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 traditional 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 School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2013. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. CASH AND CASH EQUIVALENTS

All cash received by the School is maintained in a demand deposit account.

E. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program which is reflected under "state aid" on the Statement of Revenues, Expenses, and Changes in Net Position. Revenue received from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching 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. Amounts awarded under the above programs for the 2013 school year totaled \$2,326,571.

F. CAPITAL ASSETS AND DEPRECIATION

For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000.

As of June 30, 2013, the School had no capital assets.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. USE OF ESTIMATES

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure 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.

H. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily state aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

I. CHANGE IN ACCOUNTING PRINCIPLES

For 2013, the School has implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". GASB Statement No. 63 provides financial and reporting guidance for deferred outflows of resources and deferred inflows of resources which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's net position. The implementation of GASB Statement No. 63 has changed the presentation of the School's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all School deposits was \$2,201. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, none of the School's bank balance of \$2,201 was exposed to custodial risk as discussed below, since all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

B. Investments

As of June 30, 2013, the School had no investments.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

4. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants funding receivable" in the amount of \$65,232 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2013.

Additionally, under the terms of the management agreement (see note 7), the School has recorded a liability to BHA Canton, LLC in the amount of \$67,253 for 100 percent of any State and Federal monies uncollected or unpaid to BHA Canton, LLC as of June 30, 2013.

5. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2013, the School had no assets.

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. As part of its management agreement with BHA Canton, LLC, BHA Canton, LLC has contracted with an insurance company for property and general liability insurance pursuant to the management agreement (see note 7). There were no significant reductions in insurance coverage from the prior year and claims did not exceed coverage over the past two years.

Director and Officer - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and a \$5,000 or \$10,000 deductible depending on the claim.

7. AGREEMENT WITH BHA CANTON, LLC

Effective March 10, 2011, the School entered into a management agreement (Agreement) with BHA Canton, LLC, which is an educational consulting and management company. The term of the Agreement with BHA Canton, LLC is for 5 years and will renew for two additional, successive five (5) year terms unless one party notifies the other party on or before the February 1st prior to the expiration of the then-current term of its intention to not renew the Agreement. Substantially all functions of the School have been contracted to BHA Canton, LLC. BHA Canton, LLC is responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School is required to pay BHA Canton, LLC a monthly continuing fee of 96 percent (amended to 95 percent effective April 2013) of the School's "Qualified Gross Revenues", defined in the Agreement as, all revenues and income received by the School except for charitable contributions and BHA Canton, LLC shall receive 100 percent of any and all grants or funding of any kind generated by BHA Canton, LLC, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any. The continuing fee is paid to BHA Canton, LLC based on the qualified gross revenues.

The School had purchased service expense for the year ended June 30, 2013, to BHA Canton, LLC, of \$2,250,192 of which \$67,253 was payable to BHA Canton, LLC at June 30, 2013. BHA Canton, LLC will be responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

8. SPONSORSHIP FEES

Under the sponsor contract with Buckeye, the School pays to Buckeye three percent (3%) of all state funds received each year, in consideration for the time, organization, oversight, fees and costs of the Buckeye. Such fees are paid to the Buckeye monthly. As indicated on the Statement of Revenues, Expenses, and Changes in Net Position, the School incurred \$54,064 in sponsorship fees to Buckeye.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

9. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2013, BHA Canton, LLC and its affiliates incurred the following expenses on behalf of the School:

	2013
Expenses	
Direct Expenses:	
Salaries and wages	\$ 895,686
Employees' benefits	275,884
Professional and technical services	300,510
Property services	186,233
Travel	3,984
Communications	10,878
Utilities	76,571
Books, periodicals, and films	57,678
Food and related supplies	97,003
Other supplies	77,408
Depreciation	19,229
Other direct costs	50,628
Indirect expenses:	
Overhead	351,013
Total expenses	\$ 2,402,705

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support, marketing and communications.

10. DEFINED BENEFIT PENSION PLANS

The School has contracted with BHA Canton, LLC to provide employee services and to pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to each of the systems noted below (see note 7).

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

Plan Description – BHA Canton, LLC, on behalf of the School, contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits: annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and BHA Canton, LLC, on behalf of the School, is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions to SERS for the years ended June 30, 2013 and 2012 were \$40,449 and \$36,768, which equaled the required contributions each year.

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description – BHA Canton, LLC, on behalf of the School, participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. STATE TEACHERS RETIREMENT SYSTEM (CONTINUED)

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. BHA Canton, LLC, on behalf of 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

BHA Canton, LLC's required contributions on behalf of the School for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013 and 2012 were \$54,825 and \$83,684; 100 percent has been contributed for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2013 were \$144 made by the School and \$103 made by the plan members.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2013, there were no members that elected Social Security.

11. POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

Postemployment Benefits - In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation is .75 percent. BHA Canton, LLC's contributions on behalf of the School for the years ended June 30, 2013 and 2012 were \$2,167 and \$2,171, respectively, which equaled the required contributions that year.

Health Care Plan- ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (Continued)

SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is .55 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. BHA Canton, LLC's contributions on behalf of the School assigned to health care for the years ended June 30, 2013 and 2012 were \$3,080 and \$6,786 respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description – BHA Canton, LLC's, on behalf of the School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2013 and 2012 were \$5,483 and \$6,437 respectively; 100 percent has been contributed for fiscal years 2013 and 2012.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

12. CONTINGENCES

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.

Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment 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. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2013 have not been calculated and will be included in the financial activity for fiscal year 2014.

December 8, 2013

To the Board of Directors
Garfield Academy
1379 Garfield Avenue SW
Canton, OH 44706

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Garfield Academy, Stark County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

Medina, Ohio

December 8, 2013

To the Board of Directors
Garfield Academy
1379 Garfield Avenue SW
Canton, OH 44706

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited the Garfield Academy, Stark County, Ohio (the School's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2013. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hea & Associates, Inc.

Medina, Ohio

**GARFIELD ACADEMY
STARK COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA #	Grant Year	Revenues	Expenses
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2013	\$ 277,513	\$ 277,513
Special Education IDEA Part B	84.027	2013	91,392	91,392
Improving Teacher Quality	84.367	2013	3,792	3,792
<i>Total U.S. Department of Education</i>			<u>372,697</u>	<u>372,697</u>
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Cash Assistance:</i>				
School Breakfast Program	10.553	2013	42,814	42,814
National School Lunch Program	10.555	2013	98,465	98,465
<i>Total Child Nutrition Cluster</i>			<u>141,279</u>	<u>141,279</u>
Cafeteria Technology Grant	10.560	2013	1,703	1,703
<i>Total U.S. Department of Agriculture</i>			<u>142,982</u>	<u>142,982</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 515,679</u>	<u>\$ 515,679</u>

The accompanying notes are an integral part of this schedule.

**GARFIELD ACADEMY
STARK COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School's federal awards programs. This schedule has been prepared using the full accrual basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. Food Distribution Program nonmonetary assistance is reported in the schedule of expenditures of federal awards at the entitlement value of the commodities received and disbursed. At June 30, 2013, the School had no significant food commodities inventory.

NOTE C - TRANSFERS

The School generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During the fiscal year 2013, ODE authorized the following transfers:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount transferred from 2013 to 2014</u>
Title I	84.010	\$ 34,104

**GARFIELD ACADEMY
STARK COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , SECTION .505
FOR THE YEAR ENDED JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Title I	CFDA # 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

None were noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted.

December 8, 2013

To the Board of Directors
Garfield Academy
1379 Garfield Avenue SW
Canton, OH 44706

Independent Accountant's Report on Applying Agreed-Upon Procedures

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 Garfield Academy, Stark County, Ohio (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 Board adopted its anti-harassment policy at its meeting on December 6, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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 School's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

Medina, Ohio

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Dave Yost • Auditor of State

GARFIELD ACADEMY

STARK 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
FEBRUARY 11, 2014**