



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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CENTRAL ACADEMY OF OHIO
LUCAS COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2016
Fiscal Year Audited Under GAGAS: 2016



Dave Yost • Auditor of State

Board of Directors
Central Academy of Ohio
2727 Kenwood Blvd
Toledo, Ohio 43606-3216

We have reviewed the *Independent Auditor's Report* of the Central Academy of Ohio, Lucas County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 Central Academy of Ohio is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

May 2, 2017

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CENTRAL ACADEMY OF OHIO
LUCAS COUNTY
YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Change in Net Position	9
Statement of Cash Flows.....	10
Notes to the Basic Financial Statements.....	11
Required Supplementary Information:	
Schedule of the Academy's Proportionate Share of the Net Pension Liability – School Employees Retirement System (SERS) of Ohio	31
Schedule of the Academy's Proportionate Share of the Net Pension Liability – State Teachers Retirement System (STRS) of Ohio.....	32
Schedule of Academy Contributions – School Employees Retirement System (SERS) of Ohio	33
Schedule of Academy Contributions – State Teachers Retirement System (STRS) of Ohio	35
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	37
Schedule of Prior Audit Findings	39

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Central Academy of Ohio
Lucas County
2727 Kenwood Boulevard
Toledo, Ohio 43606-3216

To the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Central Academy of Ohio, Lucas County, Ohio, (the Academy), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Academy of Ohio, Lucas County, Ohio, as of June 30, 2016, and the changes in its financial position and cash flows thereof for the year then ended in accordance with the 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 this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2017, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs
Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
January 13, 2017

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

The discussion and analysis of the Central Academy of Ohio's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were \$42,243.
- Total Liabilities were \$3,140,542.
- Total Change in Net Position was \$(138,807).

Using this Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net position, a statement of revenues, expenses and change in net position, and statement of cash flows.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net Position- the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, as reported in the Statement of Net Position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net positions - as reported in the Statement of Net Position - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Position and the Statement of Revenues, Expenses and Change in Net Position report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

Statement of Net Position

The Statement of Net Position answers the question, "How did we do financially during 2016?" This statement includes all assets and deferred outflows of resources and all liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net position for fiscal year 2016 and 2015:

Table 1
Statements of Net Position

	2016	2015
Assets		
Current Assets	\$ 42,243	\$ 83,452
Total Assets	<u>42,243</u>	<u>83,452</u>
Deferred Outflows of Resources	<u>118,954</u>	<u>88,098</u>
Liabilities		
Current Liabilities	1,802,072	1,697,434
Noncurrent Liabilities	<u>1,338,470</u>	<u>1,246,338</u>
Total Liabilities	<u>3,140,542</u>	<u>2,943,772</u>
Deferred Inflows of Resources	<u>162,922</u>	<u>231,237</u>
Net Position		
Restricted	40,811	61,432
Unrestricted (deficit)	(3,183,078)	(3,064,891)
Total Net Position	<u>\$ (3,142,267)</u>	<u>\$ (3,003,459)</u>

During fiscal year 2016, the Academy was compliant with GASB Statement 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED**

(Continued)

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

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

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

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

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

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

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

Total assets were \$42,243. Cash and cash equivalents amounted to \$1,432. Intergovernmental Receivables amounted to \$40,811, consisting primarily of receivables from federal awards.

The most significant liabilities are the payable to Global Educational Excellence, the Management Company in the amount of \$1,666,740, as well as the net pension liability in the amount of \$1,338,470.

The (\$3,183,078) deficit in unrestricted net position represents the accumulated results of the past year's operations. Since the unrestricted net position balance is a deficit, the Academy has difficulty meeting its working capital and cash flow requirements. The liabilities of the Academy are financed through a balance owed to the management company. The operating results of the Academy will have a significant impact on the change in unrestricted net position from year to year.

Table 2 shows the changes in net position for fiscal year 2016 and 2015:

Table 2
Change in Net Position

	2016	2015
Revenues		
Operating Revenues:		
Foundation Payments	\$1,197,181	\$1,386,527
Other Operating Revenues	6,093	53,454
Non-Operating Revenues:		
Donated Management Fees	200,000	300,000
Federal Grants	317,170	286,468
Total Revenues	<u>1,720,444</u>	<u>2,026,449</u>
Expenses		
Operating Expenses		
Purchased Services	1,780,563	1,809,257
Pension Expense	78,688	61,224
Depreciation	-	1,375
Total Expenses	<u>1,859,251</u>	<u>1,871,856</u>
Change in Net Position	<u>\$ (138,807)</u>	<u>\$ 154,593</u>

During the 2014-2015 school year, there were approximately 155 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2015 amounted to \$5,900 per student.

The Academy's business-type activities consist of enterprise activity. Community Schools receive no support from tax revenues. Operating revenues increased as a result of an increase in enrollment from the prior year.

Most expenses are purchased services. Per contract, the Academy remits most of its revenue to Global Educational Excellence, the Management Company, which incurs costs on behalf of the Academy to provide instruction and other costs. See Note 10 for more detail.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

Capital Assets

The Academy had no capital assets to report at June 30, 2016.

Current Financial Issues

The state foundation revenue is determined based on the student count and the foundation allowance per pupil. Approximately 87% percent of revenue is from the foundation allowance and federal operating grant funds. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Since the Academy's revenue is heavily dependent on state funding and the health of the State's school aid, the actual revenue received depends on the State's ability to collect revenues. The impact on the Academy of the State's projected revenue is not known.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy at 419-205-9800.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**STATEMENT OF NET POSITION
AS OF JUNE 30, 2016**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 1,432
Intergovernmental Receivables	40,811
Total Current Assets	42,243

Total Assets	42,243
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Deferred Outflows of Resources:

Pension	118,954
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Total Deferred Outflows of Resources	118,954
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Liabilities:

Current Liabilities

Accounts Payable	16,419
Intergovernmental Payable	118,913
Accounts Payable to Global Educational Excellence	1,666,740
Total Current Liabilities	1,802,072

Noncurrent Liabilities

Net Pension Liability	1,338,470
Total Noncurrent Liabilities	1,338,470

Total Liabilities	3,140,542
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Deferred Inflows of Resources:

Pension	162,922
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Total Deferred Inflows of Resources	162,922
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Net Position:

Restricted for federal funded programs	40,811
Unrestricted (deficit)	(3,183,078)
	(3,142,267)

Total Net Position	\$ (3,142,267)
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See Accompanying Notes to the Basic Financial Statements

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Operating Revenues:	
Foundation Payments	\$ 1,197,181
Other Operating Revenues	6,093
Total Operating Revenues	<u>1,203,274</u>
Operating Expenses:	
Purchased Services	1,780,563
Pension Expense	78,688
Total Operating Expenses	<u>1,859,251</u>
Operating Loss	<u>(655,977)</u>
Non-Operating Revenues:	
Operating Grants- Federal	317,169
Donated Management Fees	200,000
Total Non-Operating Revenues	<u>517,169</u>
Change in Net Position	(138,808)
Net Position at Beginning of Year, As Restated	<u>(3,003,459)</u>
Net Position at End of Year	<u><u>\$ (3,142,267)</u></u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Cash Flows from Operating Activities:

Cash Received from State foundation	\$ 1,304,365
Cash Received from other operations	6,093
Cash Payments to suppliers for goods and services	(1,576,000)
Cash Payments for employee benefits	(88,023)
	(353,565)
Net Cash Used for Operating Activities	(353,565)

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants- Federal	337,791
	(15,774)
Net Increase in Cash and Cash Equivalents	(15,774)

Cash and Cash Equivalents at Beginning of Year	17,206
Cash and Cash Equivalents at End of Year	\$ 1,432

**Reconciliation of Operating Loss
to Net Cash Used for Operating Activities:**

Operating Loss	\$ (655,977)
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**Adjustments to Reconcile Operating Loss
to Net Cash Used for Operating Activities:**

Donated Management Fee	200,000
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:	
Decrease in Other Receivables	4,814
(Increase) in Deferred Outflows of Resources	(30,856)
(Decrease) in Accounts Payable	(6,360)
Increase in Intergovernmental Payable	106,183
Increase in Accounts Payable to Global Educational Excellence	4,814
Increase in Net Pension Liability	92,132
(Decrease) in Deferred Inflows of Resources	(68,315)
	302,412
Total Adjustments	302,412
Net Cash Used for Operating Activities	\$ (353,565)

Noncash Transactions:

Disposal of capital assets	\$ -
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See Accompanying Notes to the Basic Financial Statements

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Central Academy of Ohio (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through eight. The Academy's objective is to promote lifelong learning by nurturing academic excellence, positive character, and an appreciation of cultures. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501c(3) of the Internal Revenue Code.

The Academy has renewed its charter agreement under the oversight of Ohio Council of Community Schools (OCCS) for a period of ten years which commenced July 1, 2013 and ending June 30, 2022. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In consideration of permitting the creation of the Academy, for the time, organization, oversight, fees, and costs of the Sponsor, the Academy makes annual payments of 3% percent of the total state funds received each year to the Sponsor.

The Academy operates under the direction of a five-member board of directors. The board of directors is responsible for carrying out the provisions of the contract, 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 board of directors controls the Academy's instructional/support facility staffed by eleven noncertified and twelve certified full-time teaching personnel who provide services to 155 students.

The governing board has entered into a management contract with Global Educational Excellence to provide consulting services, including teacher training, curriculum development, financial management, and state relations. (See Note 10)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and change 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.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL
STATEMENTS JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Measurement Focus

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

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenues 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.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching 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 Academy on reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction, unless specifically provided in the contract between the academy and its sponsor. The contract between the Academy and the Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast that is to be updated on an annual basis.

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's management company, Global Educational Excellence, which serves as the Academy's fiscal agent. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which services are consumed.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) 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 Academy maintains a capitalization threshold of five thousand dollars. The Academy 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.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Leasehold Improvements	5 years
Furniture, Fixtures and Equipment	5 years
School Bus	8 years

H. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of June 30, 2015, including accounts payable, intergovernmental payable, and amounts payable to the Management Company, Global Educational Excellence.

I. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources have been reported for the following two items related the Academy's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the Academy's contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the Academy's net pension liability.

J. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, granters or laws or regulations of other governments.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

L. Intergovernmental Revenue

The Academy currently participates in the State Foundation Basic Aid Program. Revenues from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are met.

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 Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

M. 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Pensions

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

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2016, the Academy did not experience any change of accounting principles.

NOTE 4 - DEPOSITS

At June 30, 2016, the carrying amount of the Academy's deposits was \$1,432 and the bank balance was \$1,432. As of June 30, 2016, the bank balance was fully covered by the Federal Deposit Insurance Corporation.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental receivables for reimbursements of Title Money for federal related expenditures and other receivables. All receivables are considered collectable in full and are expected to be received within one year.

The Intergovernmental Receivables consist of the following:

Title I	13,556
Title IIA	8,059
Race to the Top	13,735
IDEA	<u>5,461</u>
Total Intergovernmental Receivables	<u><u>\$40,811</u></u>

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended 2016, the Academy obtained insurance thru broker Sterling Agency with the following insurance coverage:

Commercial General Liability per Occurrence	\$1,000,000
Commercial General Liability Aggregate	2,000,000
Educators Professional Liability	
Per Occurrence	1,000,000
Aggregate	2,000,000
Business Personal Property	150,000
Excess Liability:	
Limits of Liability	10,000,000

Claims have not exceeded coverage for the past two fiscal years.

B. Workers' Compensation

The Academy pays the state workers' compensation system a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - DEFINED BENEFIT PENSION PLANS- (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

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

The Academy's contractually required contribution to SERS was \$23,678 for fiscal year 2016. Of this amount \$729 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - The Academy's licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Website at www.strsoh.org.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - DEFINED BENEFIT PENSION PLANS- (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. Through June 30, 2015, the employer rate was 14% and the member rate was 12% of covered payroll. The statutory employer rate for fiscal year 2016 and subsequent years is 14%. The statutory member contribution rate increased to 13% on July 1, 2015 and will increase to 14% on July 1, 2016.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - DEFINED BENEFIT PENSION PLANS- (Continued)

The Academy's contractually required contribution to STRS was \$60,914 for fiscal year 2016. Of this amount \$4,701 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$340,506	\$997,964	\$1,338,470
Proportion of the Net Pension Liability	0.0059674%	0.00361096%	-
Pension Expense	\$50,442	\$33,168	\$83,610

At June 30, 2016, the Academy's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$5,400	\$39,707	\$45,107
Difference from a change in proportion and Difference between Academy contributions And proportionate share of contributions Academy contributions subsequent to the measurement date	(11,880)	-	(11,880)
	<u>24,813</u>	<u>60,914</u>	<u>85,727</u>
Total Deferred Outflows of Resources	<u>\$18,333</u>	<u>\$100,621</u>	<u>\$118,954</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	9,709	71,902	\$81,611
Difference between Academy contributions and proportionate share of contributions	-	81,311	81,311
Total Deferred Inflows of Resources	<u>\$9,709</u>	<u>\$153,203</u>	<u>\$162,992</u>

\$85,727 reported as deferred outflows of resources related to pension resulting from the Academy's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - DEFINED BENEFIT PENSION PLANS- (Continued)

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	(\$6,638)	(\$36,968)	(\$43,606)
2017	(6,638)	(36,968)	(43,606)
2018	(6,638)	(36,968)	(43,606)
2019	3,744	3,316	7,060
Total	(\$16,170)	(\$107,588)	(\$123,758)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3.25 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - DEFINED BENEFIT PENSION PLANS- (Continued)

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

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

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

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

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

	<u>% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Academy's proportionate share of the net pension liability	\$472,159	\$340,506	\$229,643

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - DEFINED BENEFIT PENSION PLANS- (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - DEFINED BENEFIT PENSION PLANS- (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$1,386,247	\$997,964	\$669,612

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the Academy's surcharge obligation was \$2,988.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 - POSTEMPLOYMENT BENEFITS- (Continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$1,252, \$1,696, and \$248, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System of Ohio

Plan Description – The Academy participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$3,767, \$0, and \$3,836, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 9 - OTHER EMPLOYEE BENEFITS

Employees of the Academy are employed by Global Educational Excellence. Policies and procedures, and benefits are approved by the Global Educational Excellence.

NOTE 10 - MANAGEMENT AGREEMENT

The Academy entered into a 5-year contract, effective March 14, 2007 with an original expiration date of June 30, 2012, with Global Educational Excellence for educational management services. The contract contains a provision which extends the contract for successive one-year periods unless terminated by either party. In exchange for its services, Global Educational Excellence receives a management fee equal to 10% percent of all revenue sources and is reimbursed for all costs incurred on behalf of the Academy. Terms of the contract require Global Educational Excellence to provide the following:

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - MANAGEMENT AGREEMENT - (Continued)

A. Responsibility Contractor shall be responsible, and accountable to the Board, for the administration, operation and performance of the Academy, in accordance with appropriate sections of the law and the Contract. Contractor shall use its best efforts to perform the obligations and responsibilities of the Academy under the law and the Contract on behalf of the Academy or to assist the Academy in performing those obligations and responsibilities. Nothing in this Agreement shall be construed to prevent the Board from exercising its statutory, contractual or fiduciary responsibilities or from setting policies governing the operation of the Academy. Decisions made by the Contractor which by law or the Contract must be made by the Board in compliance with the Ohio Open Meetings Act shall not be binding on the Academy and its Board.

B. Educational Program The educational program and the program of instruction shall be designed by Contractor in accordance with the Contract, and may be adapted and modified from time to time with prior Board approval, it being understood that an essential principle of a successful, effective educational program is its flexibility, adaptability, and capacity to change in the interest of continuous improvement and efficiency, and that the Board and Contractor are interested in results and not in inflexible prescriptions. Notwithstanding the foregoing, the Board shall have the right to approve material changes to the educational program and programs of instruction necessitated by the failure of the Academy to meet the goals identified in the Contract or otherwise abide by the terms of the Contract. The parties acknowledge that changes to the educational program may require an amendment to the Contract prior to implementation. As between the parties, all intellectual property, proprietary information or other rights in or to any curriculum, educational materials or teaching techniques developed by Contractor for the Academy shall be the property of the Academy and shall be subject to disclosure under the law and the Ohio Freedom of Information Act unless specifically exempt.

C. Strategic Planning Contractor shall design strategic plans for the continuing educational and financial benefit of the Academy.

D. Public Relations Contractor shall design an ongoing public relations strategy for the development of beneficial and harmonious relationships with other organizations and the community, for implementation by the Academy as Board. Marketing and development costs paid by or charged to the Academy shall be limited to those costs specific to the Academy program, and shall not include any costs for the marketing and development of the Contractor or any Academy managed by the Contractor.

E. Specific Functions Contractor shall be responsible for the management, operation, administration, and provision of educational and custodial activities at the Academy. Such functions may include, but are not limited to:

1. Implementation and administration of the Educational Program, including the recommendation and acquisition of instructional materials, equipment and supplies (subject to the right of the Board to approve text books), and the administration of any and all extra and co-curricular activities and programs as approved by the Academy Board;
2. Management of all personnel functions, including professional development for the Principal, all instructional personnel and other staff, and the personnel functions outlined in Article I;

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - MANAGEMENT AGREEMENT - (Continued)

3. Maintenance and operation of the school building and installation of technology for educational or operational purposes;
4. All aspects of the business administration of the Academy;
5. All business, educational, and community partnering programs;
6. All strategic planning;
7. All fund raising and grant development programs and strategies;
8. Public relations programs, strategies and events;
9. Any other function necessary or expedient for the administration of the Academy, or as may be required under the law, the Contract, or by OCCS.
10. Contractor and the Board acknowledge that the school building is currently leased and that the Board Liaison will be responsible for compliance with the tenant's obligations thereunder, the expense of which shall be borne by the Board. Contractor shall identify to the Board Liaison those tenant obligations it performs on behalf of the Academy. The parties acknowledge that nothing contained herein shall affect the respective obligations of the landlord and tenant under the lease of the school building.

F. Subcontracts Contractor reserves the right to subcontract, with Academy Board approval, any and all aspects of all other services it agrees to provide to the Academy, including, but not limited to transportation and/or food service.

G. Place of Performance Contractor reserves the right to perform functions other than instruction, such as purchasing, professional development and administrative functions, off-site, unless prohibited by state or local law.

H. Materials Purchased All equipment, materials and supplies purchased by Contractor on behalf of the Academy shall be property of the Academy. If Contractor purchases equipment, material and supplies for the Academy, it shall comply with state law as if the Academy were making all such purchases directly.

I. Student Recruitment Contractor and the Board shall be jointly responsible for the recruitment of students, subject to the Board's direction on general recruitment and admission policies and the Contract. Application by or for students shall be voluntary, and shall be in writing. Students shall be selected in accordance with the procedures set forth in the Contract and in compliance with state law and other applicable law.

J. Due Process Hearings Contractor shall provide student due process hearings in conformity with the requirements of state and federal law regarding discipline, special education, confidentiality and access to record, consistent with the Academy's own obligations and policy.

K. Legal Requirements Contractor shall provide educational programs that meet federal, state, and local laws and regulations, and the requirements imposed under the law and the Contract, unless such requirements are or have been waived.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

L. Rules and Procedures Contractor shall recommend reasonable rules, regulations, and procedures applicable to the Academy and is authorized and directed to enforce those rules, regulations and procedures adopted by the Academy Board.

M. School Year and School Day Contractor shall establish the calendar for the school year and the school day, subject to the requirements under law and as determined annually by the Board.

N. Additional Grades and Student Population Contractor shall make recommendations to the Board concerning limiting, increasing, or decreasing the number of grades offered and the number of students served per grade or in total, within the limits provided for by the Contract. In the event the Board seeks to expand the Academy to a new grade level, the Board shall involve Contractor in such efforts as early as possible.

O. Material Breach of Agreement Failure of Contractor to reasonably perform these functions, unless prevented from doing so by the Academy, its Board or circumstances beyond Contractor's control, shall be considered a material breach of this Agreement.

For the year ended June 30, 2016, Global Educational Excellence Management Company incurred the following expenses on behalf of the Academy:

Salaries and Wages	\$ 653,761
Employee Benefits	121,297
Professional and Technical Services	158,890
Property Services	50,238
Travel Mileage/Meeting Expense	16,345
Communications	22,810
Utilities	48,379
Contracted Craft or Trade Services	16,526
Food & Related Supplies	90,043
Student Transportation	98,280
Other Supplies	220,229
Interest	20,904
Dues and Fees	84,042
Other Direct Costs	36,463
Total	<u>\$ 1,638,207</u>

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 - PURCHASED SERVICES

For the year ended June 30, 2016, purchased service expenses were payments for services rendered by various vendors, as follows:

Salaries and Wages	\$ 653,761
Employee Benefits	126,579
Professional and Technical Services	158,890
Property Services	180,238
Travel Mileage/Meeting Expense	16,344
Communications	22,810
Utilities	48,379
Contracted Craft or Trade Services	16,526
Food & Related Supplies	90,042
Student Transportation	98,280
Other Supplies	220,229
Interest	20,904
Dues and Fees	84,079
Other Direct Costs	36,463
Total Purchased Services	<u>\$ 1,780,563</u>

NOTE 12 - OPERATING LEASES - LESSEE DISCLOSURE

The Academy is located at 2727 Kenwood, Toledo, Ohio 43606 and entered into an extended lease for the period August 1, 2015 through June 30, 2019, with Central Academy of Toledo LLC, with lease terms of 13% of the annual pupil enrollment grant amount received, but in no event less than 75 students per year. The expense under the lease for the Academy totaled \$138,975.

NOTE 13- CAPITAL ASSETS

No Capital Assets additions during fiscal year 2015-2016.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 14 - CONTINGENCIES

A.Grants

The Academy receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grant agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on any of the financial statements of included herein or on the overall financial position of the Academy at June 30, 2016.

B.State Funding

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school, which can extend past the fiscal year end.

NOTE 15 - DONATED MANAGEMENT FEES

The Management Company donated \$200,000 of management fees during fiscal year 2015-2016, which reduced year-end payables to Global Educational Excellence by \$200,000.

NOTE 16 - RELATED PARTY TRANSACTIONS

The Academy leases it's building from Central Academy of Toledo, LLC. Mohamed Issa is a part owner of Central Academy of Toledo, LLC and is the President of Global Educational Excellence (the Management Company). The Academy has paid \$115,191 during fiscal year 2016 and the Academy books a lease payable of \$2,436 to Central Academy of Toledo for fiscal year 2016, which is included in accounts payable on the Statement of Net Position.

NOTE 17 - MANAGEMENT PLAN

The Academy had an operating loss of \$655,977 and deficit net position of \$3,142,267 at June 30, 2016. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies, in addition to paying down the Academy's \$1,666,740 liability with Global Educational Excellence.

**CENTRAL ACADEMY OF OHIO
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 18 - LONG TERM LIABILITIES

The Academy's long-term obligations during the year consist of the following:

	Restated Balance			Balance	Amounts Due in
	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>One Year</u>
Net pension liability:					
STRS	\$ 957,257	\$ 40,707	\$ -	\$ 997,964	\$ -
SERS	289,081	51,425		340,506	-
Total net pension liability	<u>\$ 1,246,338</u>	<u>\$ 92,132</u>	<u>\$ -</u>	<u>\$ 1,338,470</u>	<u>\$ -</u>

CENTRAL ACADEMY OF OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.596700%	0.005712%	0.005712%
Academy's proportionate share of the net pension liability	\$ 340,506	\$ 289,081	\$ 339,674
Academy's covered-employee payroll	\$ 179,651	\$ 179,286	\$ 209,906
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	161.24%	161.82%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

CENTRAL ACADEMY OF OHIO

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.00361096%	0.00393553%	0.00393553%
Academy's proportionate share of the net pension liability	\$ 997,964	\$ 957,257	\$ 1,140,278
Academy's covered-employee payroll	\$ 376,743	\$ 413,138	\$ 392,131
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.89%	231.70%	290.79%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

CENTRAL ACADEMY OF OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST EIGHT FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 24,832	\$ 23,678	\$ 24,849	\$ 29,051
Contributions in relation to the contractually required contribution	<u>(24,832)</u>	<u>(23,678)</u>	<u>(24,849)</u>	<u>(29,051)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 188,407	\$ 179,651	\$ 179,286	\$ 209,906
Contributions as a percentage of covered-employee payroll	13.18%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 20,766	\$ 9,935	\$ 20,774	\$ 12,820
<u>(20,766)</u>	<u>(9,935)</u>	<u>(20,774)</u>	<u>(12,820)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 154,394	\$ 79,037	\$ 153,427	\$ 130,285
13.45%	12.57%	13.54%	9.84%

(continued)

CENTRAL ACADEMY OF OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST EIGHT FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 54,942	\$ 52,744	\$ 53,708	\$ 50,977
Contributions in relation to the contractually required contribution	<u>(54,942)</u>	<u>(52,744)</u>	<u>(53,708)</u>	<u>(50,977)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 392,443	\$ 376,743	\$ 413,138	\$ 392,131
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 52,519	\$ 25,729	\$ 14,668	\$ 15,064
<u>(52,519)</u>	<u>(25,729)</u>	<u>(14,668)</u>	<u>(15,064)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 403,992	\$ 197,915	\$ 112,831	\$ 115,877
13.00%	13.00%	13.00%	13.00%

(continued)



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Central Academy of Ohio
Lucas County
2727 Kenwood Boulevard
Toledo, Ohio 43606-3216

To the Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Central Academy of Ohio, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 13, 2017.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.

Piketon, Ohio

January 13, 2017

Central Academy of Ohio
Lucas County, Ohio

Schedule of Prior Audit Findings
For the Fiscal Years Ended June 30, 2016

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2015-001	Sound Financial Reporting	Yes	Fully Corrected in 2016

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Dave Yost • Auditor of State

CENTRAL ACADEMY OF OHIO

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 16, 2017**