

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016



Dave Yost • Auditor of State

Board of Directors
Educational Academy for Boys and Girls
4131 Clime Road
Columbus, Ohio 43228

We have reviewed the *Independent Auditor's Report* of the Educational Academy for Boys and Girls, Franklin County, prepared by Rea & Associates, 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 Educational Academy for Boys and Girls is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

March 24, 2017

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**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY**

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis 3

Basic Financial Statements:

Statement of Net Position 8

Statement of Revenues, Expenses, and Changes in Net Position 9

Statement of Cash Flows..... 10

Notes to the Basic Financial Statements..... 11

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Academy’s Proportionate Share of the Net Pension Liability 27

Schedule of Academy Contributions28

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.....29

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December 28, 2016

To the Board of Directors
Educational Academy for Boys and Girls
Franklin County, Ohio
4131 Clime Road
Columbus, OH 43228

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Educational Academy for Boys and Girls, Franklin 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 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 entity'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 entity'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 financial position of the Academy, as of June 30, 2016, and the changes in financial position and the cash flows 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* and the *Schedule of the Academy's Proportionate Share of the Net Pension Liability*, and *Schedule of Academy Contributions* on pages 3-7, 27, and 28, respectively, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016 on our consideration of the Academy'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 Academy's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Dublin, Ohio

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The discussion and analysis of Educational Academy for Boys and Girls (the Academy) financial performance provides an overall review of the 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

Key financial highlights for the Educational Academy for Boys and Girls during the fiscal year ended June 30, 2016, are as follows:

- Ø Total net position increased by \$9,323.
- Ø Total assets and deferred outflows of resources increased by \$126,670 from the prior year.
- Ø Total liabilities and deferred inflows of resources increased by \$117,347 from the prior year.
- Ø The Academy's operating loss was \$375,129.

Using this Financial Report

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

Statement of Net Position

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

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

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Table 1 provides a summary of the Academy's net position for June 30, 2016, compared to those reported for fiscal year 2015.

(Table 1)
Net Position

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Current Assets | \$ 146,784 | \$ 75,701 |
| Capital Assets, Net | 24,305 | 32,166 |
| Total Assets | <u>171,089</u> | <u>107,867</u> |
| Deferred Outflows of Resources | | |
| Pension | 182,171 | 118,723 |
| Total Deferred Outflows of Resources | <u>182,171</u> | <u>118,723</u> |
| Liabilities | | |
| Current Liabilities | 93,995 | 43,970 |
| Long-Term Liabilities | 1,612,321 | 1,389,546 |
| Total Liabilities | <u>1,706,316</u> | <u>1,433,516</u> |
| Deferred Inflows of Resources | | |
| Pension | 91,817 | 247,270 |
| Total Deferred Inflows of Resources | <u>91,817</u> | <u>247,270</u> |
| Net Position | | |
| Investment in Capital Assets | 24,305 | 32,166 |
| Unrestricted | (1,469,178) | (1,486,362) |
| Total Net Position | <u>\$ (1,444,873)</u> | <u>\$ (1,454,196)</u> |

Current assets increased \$71,083. Of this increase, \$65,088 was due to an increase in intergovernmental receivables based on timing of Federal grant drawdowns crossing year end. Current liabilities increased due to an increase in amounts owed to Educational Solutions Co. under the management agreement described in Note 9. Changes in deferred inflows/outflows and long-term liabilities are a result of changes in net pension liability and related accruals.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Table 2 shows the changes in net position ended June 30, 2016 as compared to changes reported for fiscal year 2015.

(Table 2)
Change in Net Position

| | 2016 | 2015 |
|---------------------------------|----------------|----------------|
| Operating Revenues | | |
| Foundation | \$ 938,192 | \$ 871,074 |
| Casino Aid | 6,029 | 4,854 |
| Non-Operating Revenues | | |
| Federal and State | 380,623 | 387,040 |
| Miscellaneous | 3,904 | 1,612 |
| Total Revenues | 1,328,748 | 1,264,580 |
| Operating Expenses | | |
| Purchased Services | 1,311,489 | 1,157,784 |
| Material and Supplies | - | 5,102 |
| Depreciaton | 7,861 | 3,618 |
| Non-Operating Expenses | | |
| Other Expenses | 75 | 1,595 |
| Total Expenses | 1,319,425 | 1,168,099 |
| Change in Net Position | 9,323 | 96,481 |
| Net Position, Beginning of Year | (1,454,196) | (1,550,677) |
| Net Position, End of Year | \$ (1,444,873) | \$ (1,454,196) |

Foundation revenues increased due to change in enrollment in 2016. Purchased services increased as amounts paid to Educational Solutions Co. under management agreement described in Note 9 are also linked to enrollment.

Capital Assets

At the end of fiscal year 2016, the Academy had \$24,305 invested in capital assets. See Note 4 of the basic financial statements for additional details.

Net Pension Liability

During 2015, the Academy adopted 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.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

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 new 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 of resources.

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. Under GASB 68, pension expense represents additional amounts owed, adjusted by deferred inflows and outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2016 statements report pension expense of \$98,626.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Debt

At June 30, 2016, the Academy had no outstanding debt.

Budgetary

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in the Ohio Review Code Chapter 5705 unless specifically provided in the Academy's contract with its Sponsor. The Academy does provide an annual budget in addition to five-year forecasts in October and May of each fiscal year according to its Sponsor agreement.

Currently Known Facts

There are no currently known facts that would be expected to have a significant impact on the financial condition of the school in the next year.

The Academy is sponsored by North Central Ohio Educational Service Center (NCOESC). The term of the contract is from July 1, 2013 through June 30, 2018. NCOESC will be paid three percent (3%) of the total state foundation payment received by the Academy.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Educational Academy for Boys and Girls and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Educational Academy for Boys and Girls, 1500 West Third Avenue, Suite 125, Columbus, Ohio 43212.

Educational Academy for Boys and Girls
Franklin County, Ohio
Statement of Net Position
June 30, 2016

| | |
|---------------------------------------|------------------------------|
| Assets | |
| Cash | \$ 69,544 |
| Accounts Receivable | 1,569 |
| Intergovernmental Receivable | 75,671 |
| Total Current Assets | <u>146,784</u> |
| Non-current Assets | |
| Capital Assets, Net | <u>24,305</u> |
| Total Assets | <u>171,089</u> |
| Deferred Outflows of Resources | |
| Pension | <u>182,171</u> |
| Total Deferred Outflows of Resources | <u>182,171</u> |
| Current Liabilities | |
| Accounts Payable | 55,403 |
| Grants Payable | 38,592 |
| | <u>93,995</u> |
| Long-Term Liabilities | |
| Net Pension Liability | <u>1,612,321</u> |
| Total Liabilities | <u>1,706,316</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension | <u>91,817</u> |
| Total Deferred Inflows of Resources | <u>91,817</u> |
| NET POSITION | |
| Investment in Capital Assets | 24,305 |
| Unrestricted | <u>(1,469,178)</u> |
| Total Net Position | <u><u>\$ (1,444,873)</u></u> |

See accompanying notes to the basic financial statements

Educational Academy for Boys and Girls
Franklin County, Ohio
Statement of Revenues, Expenses, and Changes in Net Position
June 30, 2016

OPERATING REVENUES:

| | |
|--------------------------|------------|
| Foundation Payments | \$ 938,192 |
| Casino | 6,029 |
| Total Operating Revenues | 944,221 |

OPERATING EXPENSES:

| | |
|--------------------------|-----------|
| Purchased Services | 1,311,489 |
| Depreciation | 7,861 |
| Total Operating Expenses | 1,319,350 |

| | |
|----------------|-----------|
| Operating Loss | (375,129) |
|----------------|-----------|

NON-OPERATING REVENUES / (EXPENSES):

| | |
|---|---------|
| Federal Grant Revenue | 378,867 |
| State Grant Revenue | 1,756 |
| Other Revenue | 3,904 |
| Other Expenses | (75) |
| Total Non-Operating Revenues/(Expenses) | 384,452 |

| | |
|------------------------|-------|
| Change in Net Position | 9,323 |
|------------------------|-------|

| | |
|---------------------------------|-------------|
| Net Position, Beginning of Year | (1,454,196) |
|---------------------------------|-------------|

| | |
|---------------------------|----------------|
| Net Position, End of Year | \$ (1,444,873) |
|---------------------------|----------------|

See accompanying notes to the basic financial statements

Educational Academy for Boys and Girls
Franklin County, Ohio
Statement of Cash Flows
June 30, 2016

INCREASE (DECREASE) IN CASH

Cash Flows from Operating Activities

| | |
|---|--------------------|
| Cash Received from State of Ohio | \$ 944,221 |
| Cash Payments to Suppliers for Goods and Services | <u>(1,257,589)</u> |
| Net Cash Used for Operating Activities | <u>(313,368)</u> |

Cash Flows from Noncapital Financing Activities

| | |
|--|----------------|
| Federal Grants | 313,966 |
| Other Revenue | 3,904 |
| Other Expenses | <u>(75)</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>317,795</u> |

Net Increase in Cash 4,427

Cash, Beginning of Year 65,117

Cash, End of Year \$ 69,544

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss \$ (375,129)

Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:

| | |
|--|----------------|
| Depreciation | 7,861 |
| Changes in Assets and Liabilities, Deferred Inflow/Outflow of Resources: | |
| Increase (Decrease) in Accounts Payable | 51,962 |
| Increase (Decrease) in Grants Payable | (1,936) |
| Increase(Decrease) in Deferred Outflows | (63,448) |
| Increase (Decrease) in Deferred Inflows | (155,453) |
| Increase (Decrease) in Net Pension Liability | <u>222,775</u> |
| Total Adjustments | <u>61,761</u> |

Net Cash Used for Operating Activities \$ (313,368)

See accompanying notes to the basic financial statements

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Educational Academy for Boys and Girls (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy, which is part of the State's education program, is independent of any school district and is non sectarian 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 was approved for operation under a contract with the St. Aloysius Orphanage during the fiscal year ended June 30, 2007, and renews annually every June 30th unless cancelled by either party with 90 days notice. On or about June 6, 2013, St. Aloysius, with the Governing Authorities consent, assigned all of its rights and duties under said community school sponsorship contract to North Central Ohio Educational Service Center (Sponsor).

On July 1, 2013, on behalf of the Academy, Educational Solutions Co. (ESC) entered into a 5-year contract with the Sponsor.

The Academy is required to operate under the direction of a Governing Board consisting of at least five members. The Governing Board 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.

Effective July 1, 2012, the Academy and Educational Solutions Co. entered into a full-performance management contract. Under this contract, Educational Solutions Co. is obligated to manage and operate the Academy. Educational Solutions Co. is an Ohio non-profit corporation that was established and is operated for educational purposes to support Ohio community schools. It was granted federal tax exemption under IRS Section 501(c)(3), and it is classified as a public charity under IRS Section 509(a)(3), a supporting organization. In addition to the Academy, Educational Solutions Co. currently supports two other Ohio community schools. Each of its supported schools are members of Educational Solutions Co., as such term is defined by Ohio Revised Code Chapter 1702. As members of Educational Solutions Co., the schools, under Educational Solutions Co.'s Code of Regulations, elect a majority of the Board of Directors of Educational Solutions Co. As a result of this relationship, Educational Solutions Co. is "operated, supervised, or controlled by" its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and Educational Solutions Co. is a Type I supporting organization. As a result of this relationship, Educational Solutions Co. is responsive to the needs and demands of its supported schools and is an integral part of their operations.

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 governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Basis of Presentation

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

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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 deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The difference between total assets and deferred outflows of resources and liabilities and deferred inflows of resources is defined as net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

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

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

C. Budgetary Process

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

D. Cash

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash into separate funds. Cash is defined as demand deposits, savings, and investments with original maturity less than 90 days. The Academy has no investments at June 30, 2016.

E. 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 does not possess any infrastructure. The Academy capitalizes all capital assets, regardless of cost. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Life</u> |
|------------------------------------|-----------------------|
| Buildings | 40 years |
| Furniture, Fixtures, and Equipment | 5 years |
| Leasehold Improvements | 15 years |

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Estimates

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

G. Intergovernmental Revenues

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

Intergovernmental revenues associated with the Foundation and Casino Programs totaled \$944,221 during fiscal year 2016. Revenues associated with specific education grants from the state and federal governments totaled \$380,623 during fiscal year 2016.

H. Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various federal and state grants, interest earnings, if any, and payments made to the Academy by other instructional entities for use of the Academy's instructional staff comprise the non-operating revenues of the Academy. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any, comprise the non-operating expenses.

I. Accounts/Grants Payable

Obligations incurred but unpaid prior to June 30, 2016, are reported as accounts and grants payable in the accompanying financial statements. Payables totaled \$93,995 at June 30, 2016.

J. Deferred Outflow / Deferred Inflows of Resources

In addition to assets, the statement of financial position report a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources related to pension are explained in Note 5.

In addition to liabilities, the statement of financial position 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. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are explained in Note 5.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

| |
|--|
| 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) |
|--|

K. 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.

L. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Investment in capital assets consists of capital assets, net of accumulated depreciation reduced by any outstanding capital related debt. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

M. Economic Dependency

The Academy receives 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

N. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Academy.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Academy.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Implementation of New Accounting Principles (continued)

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Academy.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Academy.

3. DEPOSITS

At June 30, 2016, the carrying amount of the Academy's deposits was \$69,544 and the bank balance was \$69,544. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, the Academy's bank balance was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC), as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

| | <u>Balance 7/1/2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/2016</u> |
|---|-----------------------------|------------------|------------------|------------------------------|
| Capital Assets: | | | | |
| Furniture and Equipment | \$131,190 | \$0 | \$ - | \$131,190 |
| Total Assets | <u>131,190</u> | <u>0</u> | <u>-</u> | <u>131,190</u> |
| Less Accumulated Depreciation: | | | | |
| Furniture and Equipment | 99,024 | 7,861 | - | 106,885 |
| Accumulated Depreciation | <u>99,024</u> | <u>7,861</u> | <u>-</u> | <u>106,885</u> |
| Capital Assets, Net | <u>\$32,166</u> | <u>(\$7,861)</u> | <u>\$ -</u> | <u>\$24,305</u> |

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

5. DEFINED BENEFIT PENSION PLANS

The Academy has contracted with Educational Solutions to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately responsible for remitting retirement contributions to each of the systems noted below. See Note 9.

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 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 *accounts payable* on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School 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.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

| |
|---|
| 5. 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 years 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 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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The Academy's contractually required contribution to SERS was \$32,076 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School 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 Web site at www.strsoh.org.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

5. 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 annualization 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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$62,676 for fiscal year 2016.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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, 2015, 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>STRS</u> | <u>SERS</u> | <u>Total</u> |
|--|--------------|-------------|--------------|
| Proportionate Share of the Net Pension Liability | \$ 1,096,764 | \$ 515,557 | \$ 1,612,321 |
| Proportion of the Net Pension Liability | 0.00396845% | 0.00903520% | |
| Pension Expense | \$ 52,761 | \$ 45,865 | \$ 98,626 |

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

| | <u>STRS</u> | <u>SERS</u> | <u>Total</u> |
|--|-------------------|------------------|-------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ 49,945 | \$ 8,139 | \$ 58,084 |
| Changes in proportion | 7,022 | 22,313 | 29,335 |
| School contributions subsequent to the measurement date | 62,676 | 32,076 | 94,752 |
| Total Deferred Outflows of Resources | <u>\$ 119,643</u> | <u>\$ 62,528</u> | <u>\$ 182,171</u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | <u>\$ 77,842</u> | <u>\$ 13,975</u> | <u>\$ 91,817</u> |

\$94,752 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal 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:

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

| |
|---|
| 5. DEFINED BENEFIT PENSION PLANS (CONTINUED) |
|---|

| Fiscal Year Ending June 30: | STRS | SERS | Total |
|-----------------------------|-------------|-----------|-------------|
| 2017 | \$ (15,718) | \$ 1,906 | \$ (13,812) |
| 2018 | (15,718) | 1,906 | (13,812) |
| 2019 | (15,717) | 1,871 | (13,846) |
| 2020 | 26,278 | 10,794 | 37,072 |
| | \$ (20,875) | \$ 16,477 | \$ (4,398) |

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 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.

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

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|------------------------|----------------------|---|
| 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 | 15.00 | 7.50 |
| | 100.00 % | |

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 School'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.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net pension liability | \$ 714,893 | \$ 515,557 | \$ 347,700 |

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

| |
|---|
| 5. 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 increase | 2.75 percent at 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:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|----------------------|----------------------|---|
| 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 | 1.00 | 3.00 |
| | 100.00 % | |

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, 2015. 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.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Sensitivity of the School'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%) |
|--|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net pension liability | \$ 1,523,487 | \$ 1,096,764 | \$ 735,905 |

6. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description – On behalf of the Academy, Educational Solutions Co. 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 HMOs, PPOs, 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, co-pays, 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, SERS did not allocate any employer contributions to the Health Care Fund. 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 \$23,000. Statutes provides 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.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$489, \$2,799, and \$2,257, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

6. POSTEMPLOYMENT BENEFITS (CONTINUED)

B. State Teachers Retirement System

Plan Description – On behalf of the Academy, Educational Solutions Co 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 \$0, \$0, and \$4,455 respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

7. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2016, the School contracted with Hanover Insurance Company for its insurance coverage as follows:

| | |
|----------------------------------|-------------|
| General Liability per Occurrence | \$1,000,000 |
| General Liability Aggregate | \$2,000,000 |

Settlement amounts did not exceed settled amounts in the last 3 years nor is there a reduction in coverage from the prior year.

B. Workers' Compensation

Educational Solutions Co pays the State Worker's Compensation System a premium for employee injury coverage (Note 9).

8. PURCHASED SERVICES

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

| | |
|-------------------------------------|--------------------|
| Professional and Technical Services | \$1,311,489 |
| Total Purchased Services | <u>\$1,311,489</u> |

Purchased Services expense has increased by \$3,874 adjusted with the net impact of the accruals related to the implementation of GASB 68 and GASB 71.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

9. MANAGEMENT AGREEMENT

Effective July 1, 2012, the Academy and Educational Solutions Co. entered into a full-performance management contract. Under this contract, Educational Solutions Co. is obligated to manage and operate the Academy. Educational Solutions Co. is an Ohio non-profit corporation that was established and is operated for educational purposes to support Ohio community schools. It was granted federal tax exemption under IRS Section 501(c)(3), and it is classified as a public charity under IRS Section 509(a)(3), a supporting organization. In addition to the Academy, Educational Solutions Co. currently supports two other Ohio community schools. Each of its supported schools are members of Educational Solutions Co., as such term is defined by Ohio Revised Code Chapter 1702. As members of Educational Solutions Co., the schools, under Educational Solutions Co.'s Code of Regulations, elect a majority of the Board of Directors of Educational Solutions Co. As a result of this relationship, Educational Solutions Co. is "operated, supervised, or controlled by" its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and Educational Solutions Co. is a Type I supporting organization. As a result of this relationship, Educational Solutions Co. is responsive to the needs and demands of its supported schools and is an integral part of their operations. Additionally, Educational Solutions Co. will assume the obligations of the Academy under the existing contract.

10. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2016, Educational Solutions Co. incurred the following expenses on behalf of the Academy:

| | |
|-----------------------------------|----------------------------|
| Direct Expenses: | |
| Salaries & wages | \$ 558,787 |
| Employees' benefits | 174,252 |
| Professional & technical services | 176,866 |
| Property services | 74,224 |
| Travel | 2,403 |
| Communications | 28,590 |
| Utilities | 18,885 |
| Contract Services | 104,955 |
| Pupil Transportation | 2,682 |
| Supplies and Materials | 34,531 |
| Other | <u>20,565</u> |
| Total Direct Costs | 1,196,740 |
| Indirect Expenses: | |
| Overhead | <u>204,146</u> |
| Total Expenses | <u>\$ 1,400,886</u> |

Educational Solutions charges expenses benefiting more than one school (i.e., overhead) pro rata based on the percentage of FTE students per school in relation to all the schools that Educational Solutions manages. The Academy reported total purchased service expense for the fiscal year ending June 30, 2016 of \$1,311,489, of which \$93,995 is shown as payable as of June 30, 2016.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

| |
|--------------------------|
| 11. CONTINGENCIES |
|--------------------------|

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The expenditure 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 grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2016, if applicable, cannot be determined at this time.

B. State Funding

The School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, the traditional school districts must comply with the 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 district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 and 2016 Foundation funding for the Academy; therefore, the financial statements impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the Academy.

Educational Academy for Boys and Girls
Franklin County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|-------------|--------------|
| State Teachers Retirement System (STRS) | | | |
| Academy's Proportion of the Net Pension Liability | 0.00396845% | 0.00393775% | 0.00393775% |
| Academy's Proportionate Share of the Net Pension Liability | \$ 1,096,764 | \$ 957,797 | \$ 1,140,922 |
| Academy's Covered-Employee Payroll | \$ 434,957 | \$ 445,492 | \$ 260,531 |
| Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 252.15% | 215.00% | 437.92% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liabi | 72.10% | 74.70% | 69.30% |
| Academy Employees Retirement System (SERS) | | | |
| Academy's Proportion of the Net Pension Liability | 0.00903520% | 0.00853100% | 0.00853100% |
| Academy's Proportionate Share of the Net Pension Liability | \$ 515,557 | \$ 431,749 | \$ 507,311 |
| Academy's Covered-Employee Payroll | \$ 340,918 | \$ 247,908 | \$ 179,147 |
| Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 151.23% | 174.16% | 283.18% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liabi | 69.16% | 71.70% | 65.52% |

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

Educational Academy for Boys and Girls
Franklin County, Ohio
Required Supplementary Information
Schedule of Academy Contributions
Last Five Fiscal Years (1)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| State Teachers Retirement System (STRS) | | | | | |
| Contractually Required Contribution | \$ 62,676 | \$ 60,894 | \$ 57,914 | \$ 33,869 | \$ 29,729 |
| Contributions in Relation to the Contractually Required Contribution | <u>(62,676)</u> | <u>(60,894)</u> | <u>(57,914)</u> | <u>(33,869)</u> | <u>(29,729)</u> |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Academy's Covered-Employee Payroll | \$ 447,686 | \$ 434,957 | \$ 445,492 | \$ 260,531 | \$ 228,685 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 14.00% | 13.00% | 13.00% | 13.00% |
| School Employees Retirement System (SERS) | | | | | |
| Contractually Required Contribution | \$ 32,076 | \$ 44,933 | \$ 34,360 | \$ 24,794 | \$ 17,522 |
| Contributions in Relation to the Contractually Required Contribution | <u>(32,076)</u> | <u>(44,933)</u> | <u>(34,360)</u> | <u>(24,794)</u> | <u>(17,522)</u> |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Academy's Covered-Employee Payroll | \$ 229,114 | \$ 340,918 | \$ 247,908 | \$ 179,147 | \$ 126,604 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.18% | 13.86% | 13.84% | 13.84% |

(1) Information prior to 2012 is not available.

December 28, 2016

To the Board of Directors
Educational Academy for Boys and Girls
Franklin County, Ohio
4131 Clime Road
Columbus, OH 43228

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 Educational Academy for Boys and Girls, Franklin 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 December 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy'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 Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Academy's financial statements are free from 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

Dublin, Ohio



Dave Yost • Auditor of State

EDUCATIONAL ACADEMY FOR BOYS AND GIRLS

FRANKLIN 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
APRIL 6, 2017**