



Dave Yost • Auditor of State

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Rise and Shine Academy
Lucas County
3248 Warsaw Street
Toledo, Ohio 43608

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Rise and Shine Academy, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rise and Shine Academy, Lucas County, Ohio, as of June 30, 2016, and the changes in its financial position and its cash flows 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 June 20, 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.



Dave Yost
Auditor of State

Columbus, Ohio

June 20, 2017

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

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

The management's discussion and analysis of Rise and Shine Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for fiscal year 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

Key financial highlights for fiscal year 2016 are as follows:

- In total, net position was a deficit of \$221,127 at June 30, 2016.
- The Academy had operating revenues of \$480,146, operating expenses of \$668,592 and non-operating revenues of \$117,430 for fiscal year 2016. Total change in net position for the fiscal year was a decrease of \$71,016.

Using the Basic Financial Statements

This annual report consists of management's discussion and analysis, the basic financial statements and the notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provides information about the activities of Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy's Financial Activities

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during fiscal year 2016?" These statements include all assets, deferred inflows, liabilities, deferred outflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current period's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the Academy's net pension liability.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

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

The table below provides a summary of the Academy's net position for fiscal year 2016 and 2015.

Net Position		
	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets	\$ 44,256	\$ 108,513
Total assets	<u>44,256</u>	<u>108,513</u>
<u>Deferred outflows</u>		
	<u>229,229</u>	<u>24,294</u>
<u>Liabilities</u>		
Current liabilities	28,268	36,290
Non current liabilities:		
Other amounts due within one year	60,099	66,099
Net pension liability	<u>400,145</u>	<u>152,345</u>
Total liabilities	<u>488,512</u>	<u>254,734</u>
<u>Deferred inflows</u>		
	<u>6,100</u>	<u>28,184</u>
<u>Net Position</u>		
Unrestricted (deficit)	<u>(221,127)</u>	<u>(150,111)</u>
Total net position (deficit)	<u>\$ (221,127)</u>	<u>\$ (150,111)</u>

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.

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

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

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

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.

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2016, the Academy's net position was a deficit of \$221,127.

Current assets include the Academy's demand deposit account and intergovernmental receivables. Current liabilities include accounts payable due to vendors for goods and services, accrued wages, pension obligations and amounts due to other governments.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

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

The table below shows the changes in net position for fiscal years 2016 and 2015.

Change in Net Position

	<u>2016</u>	<u>2015</u>
<u>Operating Revenues:</u>		
State foundation	\$ 465,361	\$ 613,914
Other	<u>14,785</u>	<u>3,754</u>
Total operating revenue	<u>480,146</u>	<u>617,668</u>
<u>Operating Expenses:</u>		
Salaries and wages	269,266	184,059
Fringe benefits	105,650	217,452
Purchased services	267,620	311,139
Materials and supplies	26,056	106,655
Other	<u>-</u>	<u>10,232</u>
Total operating expenses	<u>668,592</u>	<u>829,537</u>
<u>Non-operating Revenues:</u>		
Federal and State operating grants	<u>117,430</u>	<u>88,749</u>
Total non-operating revenues	<u>117,430</u>	<u>88,749</u>
Change in net position	(71,016)	(123,120)
Net position (deficit) at beginning of year	<u>(150,111)</u>	<u>(26,991)</u>
Net position (deficit) at end of year	<u>\$ (221,127)</u>	<u>\$ (150,111)</u>

The Academy's enrollment decreased from 72 students in fiscal year 2015 to 56 students in fiscal year 2016. The Academy is reliant upon State foundation revenue to support operations. The decrease in foundation revenue is due to the decrease in enrollment. Salaries, wages, fringe benefits and purchased services are the largest expenses of the Academy.

Capital Assets

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

Long-term Obligations

The Academy has two outstanding loans totaling \$60,099. The Academy made \$6,000 in payments on these loans during fiscal year 2016. See Note 9 for additional detail on the long-term obligations.

Current Financial Related Activities

The Academy is reliant upon State Foundation monies and State Grants to offer quality educational services to students.

In order to continually provide learning opportunities to the Academy's students, Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State funds that are made available to finance its operations.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

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

Contacting Academy's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information, contact Todd Johnson, Treasurer of Rise and Shine Academy, 3248 Warsaw Street, Toledo, Ohio 43608.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

STATEMENT OF NET POSITION
JUNE 30, 2016

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$ 14,390
Receivables:	
Intergovernmental	29,729
Prepayments	<u>137</u>
Total assets	<u>44,256</u>

Deferred outflows of resources:

Pension - STRS.	143,500
Pension - SERS.	<u>85,729</u>
Total deferred outflows of resources	<u>229,229</u>

Liabilities:

Current liabilities:

Accounts payable.	2,176
Accrued wages and benefits	20,020
Pension and post employment benefit obligation payable.	2,970
Intergovernmental payable	<u>3,102</u>
Total current liabilities	<u>28,268</u>

Non-current liabilities:

Due within one year.	60,099
Net pension liability	<u>400,145</u>
Total non-current liabilities	<u>460,244</u>

Total liabilities	<u>488,512</u>
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Deferred inflows of resources:

Pension - STRS.	<u>6,100</u>
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Net position:

Unrestricted (deficit).	<u>(221,127)</u>
Total net position (deficit).	<u>\$ (221,127)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

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

Operating revenues:	
Foundation revenue	\$ 465,361
Other	14,785
Total operating revenues	<u>480,146</u>
Operating expenses:	
Salaries and wages.	269,266
Fringe benefits.	105,650
Purchased services.	267,620
Materials and supplies	26,056
Total operating expenses.	<u>668,592</u>
Operating loss.	<u>(188,446)</u>
Non-operating revenues:	
Federal and State operating grants.	<u>117,430</u>
Change in net position	(71,016)
Net position (deficit) at beginning of year.	<u>(150,111)</u>
Net position (deficit) at end of year	<u><u>\$ (221,127)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

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

Cash flows from operating activities:	
Cash received from State foundation	\$ 474,107
Cash received from other operations	14,785
Cash payments for salaries and wages.	(272,682)
Cash payments for fringe benefits	(71,516)
Cash payments for contractual services	(271,341)
Cash payments for materials and supplies	(26,166)
	(152,813)
Cash flows from noncapital financing activities:	
Federal and State operating grants.	90,568
Cash flows from capital and related financing activities:	
Principal retirement on loans.	(6,000)
	(6,000)
Net decrease in cash and cash equivalents.	(68,245)
Cash and cash equivalents at beginning of year . . .	82,635
Cash and cash equivalents at end of year	\$ 14,390
	14,390
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (188,446)
Changes in assets and liabilities:	
Decrease in intergovernmental receivable.	23,011
Increase in prepaids.	(137)
Increase in accounts payable.	924
Decrease in accrued wages and benefits	(3,416)
Decrease in intergovernmental payable	(4,319)
Decrease in pension and postemployment obligation payable .	(1,211)
Increase in net pension liability	247,800
Increase in deferred outflows - pensions	(204,935)
Decrease in deferred inflows - pensions.	(22,084)
	(22,084)
Net cash used in operating activities	\$ (152,813)
	(152,813)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

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

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Rise and Shine Academy (the “Academy”), is a non-profit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 to provide a balanced instructional program to students in grades K-6.. The Academy 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 was approved for sponsorship under contract resolution on March 12, 2013, with North Central Ohio Educational Service Center (the “Sponsor”) for a period of five years commencing on July 1, 2013. The Sponsor shall evaluate the performance of the Academy according to the standards set forth in the Assessment and Accountability Plan. The Sponsor is not legally responsible for the final outcome of the community school.

The service contract for the fiscal year 2016 between the Academy and the Sponsor was also approved for the term of ten years and seven months commencing January 1, 2016 and ending July 31, 2026. In agreement with the contract, the Academy shall utilize certain resources converted to the Academy’s use by the Sponsor including, but not limited, to portions of the Sponsor’s facilities, staff, equipment, instructional materials, curriculum and educational strategy, as determined to be appropriate by the Sponsor, at the Sponsor’s sole discretion. The price for services rendered by the Sponsor to the Academy is established as the Sponsor’s cost of providing such services plus an agency fee. All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor and the Sponsor shall be solely responsible for all payroll functions. The Academy pays up to a 3 percent sponsorship fee for oversight and monitoring.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy's significant 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 changes in net position, and a statement of cash flows.

Enterprise reporting focuses on the determination of the change in net position, financial position and cash flows.

B. Measurement Focus

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

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

C. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded upon the accrual basis when the exchange takes place.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows of resources. Expenses are recognized at the time they are incurred.

D. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the government-wide 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, See Note 10 for deferred outflows of resources related the Academy's net pension liability.

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, See Note 10 for deferred inflows of resources related to the Academy's net pension liability.

E. 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, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

F. Cash

Cash held by the Academy is reflected as "equity in pooled cash and cash equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2016, the Academy had no investments. All monies received by the Academy are deposited in a demand deposit account.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

G. Inventory

Purchased inventories are presented at the lower of cost or market value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method. Inventory consists of expendable supplies held for consumption. The Academy had no material inventories at June 30, 2016.

H. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Academy did not have any capital assets at June 30, 2016. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

I. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. 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, grantors or laws or regulations of other governments.

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

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity. For the Academy, these revenues are payments from the State Foundation Program and sales/charges for services. Operating expenses are necessary costs incurred to provide goods or services that are the primary activities of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

K. Intergovernmental Revenue

The Academy has recently participated in the State Foundation Program through the Ohio Department of Education. Revenues from the State foundation program are recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Revenues received from other State and Federal programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 the Academy on a reimbursement basis. Federal and State grant revenue for the fiscal year 2016 was \$117,430.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

L. 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.

M. Estimates

The preparation of basic financial statements in conformity with GAAP 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.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2016, the Academy has implemented 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 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all 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 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Academy.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative 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 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.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 4 - DEPOSITS

At June 30, 2016, the carrying amount of the Academy's deposits was \$14,390. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, the Academy's entire bank balance of \$32,567 was covered by the Federal Deposit Insurance Corporation (FDIC).

The Academy had no investments.

NOTE 5 - CAPITAL ASSETS

The Academy did not have any capital assets for the fiscal year ended June 30, 2016.

NOTE 6 - RECEIVABLES

The Academy had the following intergovernmental receivables at June 30, 2016:

IDEA Part B	\$ 1,674
Title I-A	12,806
Title II-A	3,743
Federal Food Service	9,328
Ohio Department of Education	25
State Teacher's Retirement System	828
School Employee's Retirement System	<u>1,325</u>
Total	<u>\$ 29,729</u>

All receivables are expected to be collected in the subsequent year.

NOTE 7 - PURCHASED SERVICES

For the fiscal year ended June 30, 2016, purchased services expenses were as follows:

Professional and technical services	\$ 77,812
Property services	142,317
Travel / meetings	175
Utilities	512
Communications	23,030
Contracted craft	<u>23,774</u>
Total	<u>\$ 267,620</u>

NOTE 8 - RISK MANAGEMENT

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 contracted personnel; and natural disasters. For fiscal year 2016, the Academy contracted with Fuller and Sons Insurance Agency for general liability and property insurance. Settled claims did not exceed coverage in the current year or the prior year. There have been no significant reductions in insurance coverage from the prior year.

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly gross payroll by a factor that is calculated by the State.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 9 - LONG-TERM OBLIGATIONS

The Academy's long term obligations activity for the fiscal year ended June 30, 2015, was as follows:

	Balance 6/30/15	Additions	Reductions	Balance 6/30/16	Amounts Due in One Year
Net pension liability	\$ 152,345	\$ 247,800	\$ -	\$ 400,145	\$ -
Loans payable	66,099	-	(6,000)	60,099	60,099
Total	\$ 218,444	\$ 247,800	\$ (6,000)	\$ 460,244	\$ 60,099

See Note 10 for detail on the net pension liability.

In 2015, the Academy Founder and CEO/Chancellor Pat McKinstry purchased materials and supplies in the amount of \$12,808 on behalf of the Academy. The Academy Co-Founder Michelle Williams purchased materials and supplies in the amount of \$53,291. These amounts are presented on the Statement of Net Position as non-current liabilities due within one year. The Academy has not executed formal loan agreements as of June 30, 2016, however the Academy made \$6,000 in payments, \$3,000 to Pat McKinstry and \$3,000 to Michelle Williams to repay these loans during fiscal year 2016.

NOTE 10 - 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.

The 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.

**RISE AND SHINE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description –Academy 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.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire 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 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 entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Academy’s contractually required contribution to SERS was \$9,546 for fiscal year 2016.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description –Academy 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.

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. 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

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(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 \$25,984 for fiscal year 2016.

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>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 100,576	\$ 299,569	\$ 400,145
Proportion of the net pension liability	0.00176260%	0.00108394%	
Pension expense	\$ 31,387	\$ 24,924	\$ 56,311

At June 30, 2016, the Academy 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	\$ 1,052	\$ 12,853	\$ 13,905
Changes in proportionate share	67,605	104,663	172,268
Net difference between projected and actual earnings on pension plan investments	7,526	-	7,526
Academy contributions subsequent to the measurement date	<u>9,546</u>	<u>25,984</u>	<u>35,530</u>
Total deferred outflows of resources	<u>\$ 85,729</u>	<u>\$ 143,500</u>	<u>\$ 229,229</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ -</u>	<u>\$ 6,100</u>	<u>\$ 6,100</u>
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ 6,100</u>	<u>\$ 6,100</u>

\$35,530 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 year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Fiscal Year Ending June 30:	SERS	STRS	Total
2017	\$ 23,817	\$ 26,184	\$ 50,001
2018	23,817	26,184	50,001
2019	23,817	26,183	50,000
2020	4,732	32,865	37,597
Total	\$ 76,183	\$ 111,416	\$ 187,599

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 22.00 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.

**RISE AND SHINE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 10 - 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
Total	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 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.

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact of the Academy's net pension liability is expected to be significant.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 139,462	\$ 100,576	\$ 67,830

**RISE AND SHINE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 10 - 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, 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.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 10 - 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%)
District's proportionate share of the net pension liability	\$ 416,124	\$ 299,569	\$ 201,005

NOTE 11 - 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, 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, none of the employer contribution 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 \$23,000. 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 \$167.

The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$167, \$435, and \$0, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**RISE AND SHINE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS – (Continued)

B. State Teachers Retirement System

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 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 years 2016 and 2015, 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 \$640, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 12 - CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous 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 are subject to audit by the grantor 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 effect on the financial statements on the financial position of the academy at June 30, 2016.

B. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

C. Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated.

The Academy is due \$25 and owes \$1,095 as a result of the enrollment reviews for fiscal years 2015 and 2016. These amounts are recorded as “intergovernmental receivable” and “intergovernmental payables”, respectively, on the statement of net position.

NOTE 13 - SERVICE AGREEMENTS

The Academy is contracting with the Sponsor to manage its operations. All services are to be provided on a purchased service or reimbursement basis. The Academy paid \$14,442 to the Sponsor for educational, fiscal and administrative services for the fiscal year ended June 30, 2016.

**RISE AND SHINE ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

NOTE 14 – RELATED PARTY TRANSACTION

In fiscal year 2015, the Academy Founder and CEO/Chancellor Pat McKinstry purchased materials and supplies in the amount of \$12,808 on behalf of the Academy. The Academy Co-Founder Michelle Williams purchased materials and supplies in the amount of \$53,291. These amounts are presented on the Statement of Net Position as non-current liabilities due within one year. The Academy has not executed formal loan agreements as of June 30, 2016, however the Academy made \$6,000 in payments, \$3,000 to Pat McKinstry and \$3,000 to Michelle Williams to repay these loans during fiscal year 2016.

NOTE 15 – MANAGEMENT’S PLAN REGARDING ACCUMULATED DEFICIT

As of the year ended June 30, 2016, the Academy has accumulated a deficit of \$44,111, net of the cumulative effects of implementing GASB 68. However, the Academy has reported a reduction in the deficit in each of the last two years, which can be attributed to the control of expenditures to stay within their operating budget and a commitment to reserving a yearly surplus. The Academy will likely end fiscal year 2017 in a much better financial position due to increased enrollment and continuing to be fiscally responsible.

**RISE AND SHINE ACADEMY
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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FISCAL YEAR

	<u>2015</u>
Academy's proportion of the net pension liability	0.00176260%
Academy's proportionate share of the net pension liability	\$ 100,576
Academy's covered-employee payroll	\$ 53,065
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.53%
Plan fiduciary net position as a percentage of the total pension liability	69.16%

Note: Information prior to fiscal year 2014 was unavailable.

Note: There were no contributions in FY14

**RISE AND SHINE ACADEMY
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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	<u>2015</u>		<u>2014</u>
Academy's proportion of the net pension liability	0.00108394%		0.00062633%
Academy's proportionate share of the net pension liability	\$ 299,569	\$	152,345
Academy's covered-employee payroll	\$ 113,093	\$	63,992
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.89%		238.07%
Plan fiduciary net position as a percentage of the total pension liability	72.10%		74.70%

Note: Information prior to fiscal year 2014 was unavailable.

Amounts presented as of the Academy's measurement date which is the prior fiscal year end.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 9,546	\$ 6,994	\$ -
Contributions in relation to the contractually required contribution	<u>(9,546)</u>	<u>(6,994)</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 68,186	\$ 53,065	\$ -
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	0.00%

Note: The Academy's first year of operation was 2014; therefore information prior to 2014 is not applicable. There were no SERS contributions in 2014.

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 25,984	\$ 15,833	\$ 8,319
Contributions in relation to the contractually required contribution	<u>(25,984)</u>	<u>(15,833)</u>	<u>(8,319)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 185,600	\$ 113,093	\$ 63,992
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%

Note: The Academy's first year of operation was 2014; therefore information prior to 2014 is not applicable

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financials for the methods and assumptions in this calculation.



Dave Yost • Auditor of State

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

Rise and Shine Academy
Lucas County
3248 Warsaw Street
Toledo, Ohio 43608

To the Governing 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 Rise and Shine Academy, 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 June 20, 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.

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

Dave Yost
Auditor of State

Columbus, Ohio

June 20, 2017

**RISE AND SHINE ACADEMY
LUCAS COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Finding was first issued in the 2014 audit. Material Weakness over Non-payroll disbursements due to poorly organized and missing supporting documentation.	Partially corrected and repeated in the management letter.	This issue reoccurred due to insufficient oversight by management. The Academy began implementing policies and procedures to address this issue, and will continue to correct this in the future. Issue was repeated in the management letter.
2015-002	Finding was first issued in the 2014 audit. Material Weaknesses over Payroll Disbursements due to a lack of approved contracts, pension enrollment forms, and tax withholding forms on file.	Partially corrected and repeated in the management letter.	This issue reoccurred due to insufficient oversight by management. The Academy began implementing policies and procedures to address this issue, and will continue to correct this in the future. Issue was repeated in the management letter.
2015-003	Material Weakness over Financial Reporting due to material audit adjustments.	Correction action taken and finding is fully corrected.	
2015-004	Material Weakness over Bank Accounts due to a bank account in the Academy's name that was not included on the Academy's books.	Correction action taken and finding is fully corrected.	
2015-005	Noncompliance/Material Weaknesses over SERS Employer Contributions due to the Academy failing to make payments for employer contributions to SERS.	Correction action taken and finding is fully corrected.	
2015-006	Noncompliance/Material Weakness over SERS Employee Contributions due to the Academy failing to make payments for employee contributions to SERS.	Correction action taken and finding is fully corrected.	
2015-007	Noncompliance/Significant Deficiency over STRS Employer Contributions due to the Academy failing to make payments for employer contributions to STRS	Correction action taken and finding is fully corrected.	
2015-008	Noncompliance/Significant Deficiency over STRS Employee Contributions due to the Academy failing to make payments for employee contributions to STRS.	Correction action taken and finding is fully corrected.	

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Rise and Shine Academy
Lucas County
3248 Warsaw Street
Toledo, Ohio 43608

To the Governing Board:

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

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Rise and Shine Academy, Lucas County, Ohio (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated November 10, 2016, we noted the Board had not adopted an anti-harassment policy.
2. We inquired with the Board's management regarding the aforementioned policy. They stated they have not yet adopted an anti-harassment policy. The Board should adopt a policy as required by Ohio Rev. Code 3313.666.
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property, on a school bus, or at school-sponsored events and expressly providing for the possibility of suspension of a student found responsible for harassment, intimidation, or bullying by an electronic act;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as of the latest amendment;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the Academy administration semiannually provide the president of the Academy board a written summary of all reported incidents and post the summary on its web site, if the Academy has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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



Dave Yost
Auditor of State

Columbus, Ohio

June 20, 2017



Dave Yost • Auditor of State

RISE AND SHINE ACADEMY

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
JULY 6, 2017