



Dave Yost • Auditor of State

**BERWYN EAST ACADEMY
FRANKLIN COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Berwyn East Academy
Franklin County
1850 Bostwick Road
Columbus, Ohio 43227

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Berwyn East Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2017, 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 such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Berwyn East Academy, Franklin County, Ohio as of June 30, 2017, 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 July 3, 2018, 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

July 3, 2018

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The management's discussion and analysis of the Berwyn East Academy (the "Academy") financial performance provides an overall review of Academy's financial activities for fiscal year 2017. 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 2017 are as follows:

- In total, net position was a deficit of \$499,454 at June 30, 2017.
- The Academy had operating revenues of \$1,146,594, operating expenses of \$1,994,282, non-operating revenues of \$323,290, and non-operating expenses of \$278 for fiscal year 2017. Total change in net position for the Academy was a decrease of \$524,676.

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 the 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

These documents look at all financial transactions and ask the question, "How did we do financially during 2017?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets, deferred outflows of resources, liabilities, 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 year'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. These statements can be found on pages 9 and 10 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13 through 31 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Academy's pension contributions. The required supplementary information can be found on pages 33 through 38 of this report.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The table below provides a summary of the Academy's net position for fiscal years 2017 and 2016.

	Net Position	
	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current and other assets	\$ 204,062	\$ 230,499
Capital assets, net	<u>28,900</u>	<u>9,930</u>
Total assets	<u>232,962</u>	<u>240,429</u>
<u>Deferred Outflows of Resources</u>		
Pension	<u>1,330,312</u>	<u>925,894</u>
Total deferred outflows of resources	<u>1,330,312</u>	<u>925,894</u>
<u>Liabilities</u>		
Current liabilities	198,694	183,170
Non-current liabilities	<u>1,864,034</u>	<u>957,931</u>
Total liabilities	<u>2,062,728</u>	<u>1,141,101</u>
<u>Net Position</u>		
Net investment in capital assets	26,424	4,305
Unrestricted (deficit)	<u>(525,878)</u>	<u>20,917</u>
Total net position (deficit)	<u>\$ (499,454)</u>	<u>\$ 25,222</u>

Net Pension Liability and Related Deferred Inflows and Deferred Outflows Related to Pension

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

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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. In addition, the Academy has reported a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Net Position Analysis

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2017, the Academy's net position was a deficit of \$499,454 compared to \$25,222 at June 30, 2016.

Current assets include the Academy's demand deposit account, intergovernmental receivables, and prepayments. Non-current assets include a security deposit receivable and capital assets. At year-end, capital assets represented 12.41% of total assets. Capital assets includes equipment. The net investment in capital assets at June 30, 2017, was \$26,424. These capital assets are used to provide services to the students and are not available for future spending. Although the Academy's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Deferred outflows of resources are reported in accordance with GASB Statement No. 68, see Note 12 to the basic financial statements for detail.

Current liabilities primarily include accounts payable due to vendors for goods and services, accrued wages and benefits and related pension and postemployment benefits reported as intergovernmental payables, and the current portion of the Academy's capital lease obligation.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Long-term obligations include a capital lease obligation for copier equipment and the Academy's net pension liability. Long-term liabilities increased due to an increase in the net pension liability. In relation to its effect on net position, the impact of the increase in the net pension liability was partially offset by an increase in deferred outflows of resources related to pension. These factors are outside of the control of the Academy. The Academy contributes its statutorily required contributions to the pension systems; however, it's the pension systems that collect, hold and distribute pensions to Academy employees, not the Academy.

The table below shows the changes in net position for fiscal years 2017 and 2016.

Change in Net Position

	<u>2017</u>	<u>2016</u>
<u>Revenues:</u>		
<i>Operating revenues</i>		
State foundation	\$ 1,141,188	\$ 1,312,055
Rental income	2,500	2,500
Other	<u>2,906</u>	<u>9,648</u>
Total operating revenue	<u>1,146,594</u>	<u>1,324,203</u>
<i>Non-operating revenues</i>		
Federal and State subsidies	322,790	258,521
Contributions and donations	<u>500</u>	<u>-</u>
Total non-operating revenue	<u>323,290</u>	<u>258,521</u>
Total revenues	<u>1,469,884</u>	<u>1,582,724</u>
<u>Expenses:</u>		
<i>Operating expenses</i>		
Salaries and wages	668,198	696,364
Fringe benefits	713,780	260,641
Purchased services	571,302	564,621
Materials and supplies	33,935	59,713
Depreciation	3,477	1,722
Other	<u>3,590</u>	<u>135</u>
Total operating expenses	<u>1,994,282</u>	<u>1,583,196</u>
<i>Non-operating expenses</i>		
Interest expense	<u>278</u>	<u>416</u>
Total non-operating expenses	<u>278</u>	<u>416</u>
Total expenses	<u>1,994,560</u>	<u>1,583,612</u>
Change in net position	(524,676)	(888)
Net position at beginning of year	<u>25,222</u>	<u>26,110</u>
Net position (deficit) at end of year	<u>\$ (499,454)</u>	<u>\$ 25,222</u>

Student enrollment decreased from 172 students in fiscal year 2016 to 146 students in fiscal year 2017. The decrease in State foundation revenue contributed to the decrease in overall revenues. The Academy is reliant upon State foundation revenue to support operations. The Academy was the recipient of Federal grants during fiscal year 2017, including the Title I, Title VI-B and Title II-A programs.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Fringe benefits, which include pension costs, were the largest expenses of the Academy during fiscal year 2017 due to pension expense increasing from \$189,294 in fiscal year 2016 to \$598,880 in fiscal year 2017. Excluding the effect of pension expense, fringe benefits were comparable to the prior year.

Capital Assets and Long-Term Debt Obligations

The Academy had \$28,900 and \$4,305 in capital assets, net of depreciation, June 30, 2017 and 2016, respectively. See Note 6 to the basic financial statements for detail.

The Academy had \$2,476 and \$4,286 in long-term debt obligations (capital lease obligation) outstanding at June 30, 2017 and 2016, respectively. See Note 7 to the basic financial statements for detail.

Current Financial Related Activities

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

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

Contacting the 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 Mr. Todd Johnson, Treasurer of Berwyn East Academy, 1850 Bostwick Road, Columbus, Ohio 43227.

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**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:	
Current assets:	
Cash	\$ 167,628
Receivables:	
Intergovernmental	29,926
Prepayments	883
Total current assets	<u>198,437</u>
Non-current assets:	
Security deposit receivable.	5,625
Depreciable capital assets, net	28,900
Total non-current assets.	<u>34,525</u>
Total assets.	<u>232,962</u>
Deferred outflows of resources:	
Pension - STRS	811,290
Pension - SERS	519,022
Total deferred outflows of resources	<u>1,330,312</u>
Liabilities:	
Current liabilities:	
Accounts payable.	55,006
Accrued wages and benefits	118,122
Intergovernmental payable	23,605
Capital lease obligation	1,961
Total current liabilities	<u>198,694</u>
Non-current liabilities:	
Net pension liability	1,863,519
Capital lease obligation	515
Total non-current liabilities	<u>1,864,034</u>
Total liabilities	<u>2,062,728</u>
Net position:	
Net investment in capital assets.	26,424
Unrestricted (deficit).	(525,878)
Total net position (deficit)	<u>\$ (499,454)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
State foundation	\$ 1,141,188
Rental income	2,500
Other	<u>2,906</u>
Total operating revenues	<u>1,146,594</u>
 Operating expenses:	
Salaries and wages.	668,198
Fringe benefits.	713,780
Purchased services.	571,302
Materials and supplies	33,935
Other.	3,590
Depreciation	<u>3,477</u>
Total operating expenses.	<u>1,994,282</u>
Operating loss	<u>(847,688)</u>
 Nonoperating revenues (expenses):	
Federal and state subsidies.	322,790
Contributions and donations.	500
Interest expense	<u>(278)</u>
Total nonoperating revenues (expenses)	<u>323,012</u>
Change in net position	(524,676)
Net position at beginning of year.	<u>25,222</u>
Net position (deficit) at end of year	<u><u>\$ (499,454)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Cash received from state foundation	\$ 1,135,484
Cash received from rental income	2,500
Cash received from other operations	6,225
Cash payments for salaries and wages.	(686,093)
Cash payments for fringe benefits	(207,584)
Cash payments for contractual services	(542,460)
Cash payments for materials and supplies	(35,603)
Cash payments for other expenses	(3,498)
	(331,029)
Net cash (used in) operating activities	
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	370,228
Cash received from contributions and donations	500
	370,728
Net cash provided by noncapital financing activities.	
Cash flows from capital and related financing activities:	
Principal retirement on capital lease	(1,810)
Interest expense on capital lease	(278)
Acquisition of capital assets	(28,072)
	(30,160)
Net cash (used in) capital and related financing activities.	
Net increase in cash	9,539
Cash at beginning of year	158,089
Cash at end of year	\$ 167,628
Reconciliation of operating loss to net cash (used in) operating activities:	
Operating loss	\$ (847,688)
Adjustments:	
Depreciation	3,477
Changes in assets and liabilities:	
Decrease in accounts receivable	3,319
(Increase) in intergovernmental receivable	(8,273)
(Increase) in prepayments.	(883)
(Increase) in deferred outflows - pension	(404,418)
Increase in accounts payable.	26,687
(Decrease) in accrued wages and benefits	(4,481)
(Decrease) in intergovernmental payable	(6,833)
Increase in net pension liability	908,064
	908,064
Net cash (used in) operating activities	\$ (331,029)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Berwyn East Academy (the “Academy”) is a non-profit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 to provide students in primary grades with the best programming and teaching techniques available using Direct Instruction. 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 April 10, 2013 with North Central Ohio Educational Service Center (the “Sponsor”) for a period of five years commencing on July 1, 2013 and ending June 30, 2018. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to terminate the contract or deny renewal of the contract at its expiration.

The Academy operates under the direction of a Governing Board which 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 qualification of teachers. The Governing Board controls the Academy’s one instructional/support facility staffed by 9 classified and 6 certified, teaching personnel who provide services to 146 students.

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, all deferred outflows of resources and all liabilities are included on the statement of net position. The statements of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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 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 12 for deferred outflows of resources related to the Academy's net pension liability.

In addition to liabilities, the statement of net position may 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. The Academy had no deferred inflows of resources at June 30, 2017.

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 received by the Academy is reflected as "cash" on the statement of net position. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. The Academy did not have any investments during fiscal year 2017.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

G. Capital Assets

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The Academy has established a capitalization threshold of \$1,500. The Academy does not have any infrastructure. 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.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Equipment is being depreciated on a straight-line basis over periods ranging from five to eight years.

H. Payables

The Academy has recognized certain liabilities on the statement of net position relating to expenses, which are due but unpaid as of June 30, 2017, including:

Accrued wages and benefits payable - a liability has been recognized at June 30, 2017 for salary payments and benefits made after year-end for services rendered in fiscal year 2017.

Intergovernmental payable - consists primarily of payments for the employer's share of the pension and postemployment retirement contributions (\$19,666), Medicare (\$1,418), to Treasurer of State of Ohio (\$21), and to City of Columbus (\$2,500), associated with services rendered during fiscal year 2017, but were not paid until the subsequent year.

I. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities. Net investment in capital assets represents capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation 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 of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

K. Intergovernmental Revenue

The Academy currently participates in the State Foundation Opportunity Grant, Special Education, Economic Disadvantaged, K-3 Literacy, Targeted Assistance, Facilities Funding, and 3rd Grade Reading Bonus Programs. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2017 school year totaled \$1,141,188.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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. Grant revenue from Federal and State subsidies received during fiscal year 2017 totaled \$322,790.

L. Accrued Liabilities

All payables, accrued liabilities and long-term obligations are reported on the statement of net position.

M. Economic Dependency

The Academy receives approximately 99.53% of its operating revenue from the Ohio Department of Education (ODE). Due to the significance of this revenue, the Academy is considered to be economically dependent on the ODE.

N. Pensions

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

O. 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 2017, the Academy has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Academy.

**BERWYN EAST ACADEMY
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NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS

At June 30, 2017, the carrying amount of the Academy's deposits was \$167,628 and the bank balance was \$193,207. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental receivables arising from grants and entitlements and amounts due from other governments. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivable:	<u>Amount</u>
Title I	\$ 1,300
IDEA Early Childhood Special Education	561
Title II-A	43
SERS overpayment	2,569
ODE Foundation adjustment	<u>25,453</u>
Total intergovernmental receivables	<u>\$ 29,926</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Balance 06/30/16	Additions	Reductions	Balance 06/30/17
Capital assets, being depreciated:				
Equipment	\$ 8,610	\$ 28,072	\$ -	\$ 36,682
Total capital assets being depreciated	<u>8,610</u>	<u>28,072</u>	<u>-</u>	<u>36,682</u>
Less: accumulated depreciation				
Equipment	<u>(4,305)</u>	<u>(3,477)</u>	<u>-</u>	<u>(7,782)</u>
Total accumulated depreciation	<u>(4,305)</u>	<u>(3,477)</u>	<u>-</u>	<u>(7,782)</u>
Capital assets, net	<u>\$ 4,305</u>	<u>\$ 24,595</u>	<u>\$ -</u>	<u>\$ 28,900</u>

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of the Academy's long-term obligations activity in fiscal year 2017:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Net pension liability:					
STRS	\$ 623,954	\$ 475,065	\$ -	\$ 1,099,019	\$ -
SERS	<u>331,501</u>	<u>432,999</u>	<u>-</u>	<u>764,500</u>	<u>-</u>
Total net pension liability	<u>955,455</u>	<u>908,064</u>	<u>-</u>	<u>1,863,519</u>	<u>-</u>
Capital lease	<u>4,286</u>	<u>-</u>	<u>(1,810)</u>	<u>2,476</u>	<u>1,961</u>
Total long-term obligations	<u>\$ 959,741</u>	<u>\$ 908,064</u>	<u>\$ (1,810)</u>	<u>\$ 1,865,995</u>	<u>\$ 1,961</u>

Net Pension Liability

See Note 12 for detail on the Academy's net pension liability.

Capital Lease

During fiscal year 2014, the Academy entered into a copier lease agreement which meets the criteria for reporting as a capital lease. Capital assets consisting of leased equipment has been capitalized in the amount of \$8,610, which represents the value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net position. Principal and interest payments in fiscal year 2017 were \$1,810 and \$278, respectively. At June 30, 2017, the book value and accumulated depreciation of the leased equipment were \$2,583 and \$6,027, respectively.

**BERWYN EAST ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2017:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2018	\$ 2,088
2019	<u>522</u>
Total minimum lease payments	2,610
Less: amount representing interest	<u>(134)</u>
Present value of minimum lease payments	<u>\$ 2,476</u>

NOTE 8 - OPERATING LEASE - LESSEE DISCLOSURE

The Academy and Sponsor (collectively the “lessee”) entered into an agreement to lease building space from Obermiller LLC. The initial term of the lease commenced on March 1, 2013 and ends on June 30, 2018. Upon expiration of the initial term, the lessee has the right to renew the lease for one additional period of three years. Commencing on July 1, 2013, monthly payments were established at \$5,625 per month, not to exceed \$6,000 per month, for the first fiscal year of the initial lease term. The monthly rent amount is subject to adjustment each calendar quarter based upon student enrollment, as provided by the terms included in the lease agreement. For the fiscal year ended June 30, 2017, the Academy paid a total of \$47,996 in rent.

In accordance with the lease agreement, a security deposit of one month’s rent in the amount of \$5,625 was paid by the Academy and has been reported as a receivable on statement of net position.

NOTE 9 - PURCHASED SERVICES

For the fiscal year ended June 30, 2017, purchased services expenses were as follows:

Professional and technical services	\$ 218,638
Property services	172,393
Travel/mileage/meeting	7,108
Communications	36,728
Utilities	42,617
Contracted craft or trade	<u>93,818</u>
 Total	 <u>\$ 571,302</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - 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 2017, the Academy contracted with The Cincinnati Insurance Company for directors, officers, trustees and organization liability coverage with a limit of \$1,000,000 and a \$5,000 deductible. Settled claims have not exceeded commercial coverage in the past three years. There was no significant reduction in coverage from the prior year.

NOTE 11 - SPONSOR CONTRACT

The Academy entered into a sponsorship contract commencing on July 1, 2013 and ending on June 30, 2018, with the North Central Ohio Educational Service Center (the "Sponsor") for its establishment. The Sponsor shall carry out the responsibilities established by law, including:

- Attend training sessions as required by the Ohio Department of Education (ODE);
- Prior to the Academy's opening for instruction, verify by a site visit whether the Academy complies with all legal and contractual requirements;
- Monitor the Academy's compliance with all applicable laws and with the terms of the contract;
- Conduct comprehensive site visits to the Academy as necessary;
- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Submit a written report of the evaluations conducted to the parents and students enrolled in the Academy and to ODE by November 30th of each year;
- Provide technical assistance to the Academy in complying with all laws and terms of the contract;
- Comply with the financial reporting requirements as established by ODE, and report the Academy's financial records in accordance with applicable accounting standards and as prescribed by law;
- Notify ODE within twenty-four hours of the Academy's failure to comply with applicable laws or contract requirements, as well as any financial difficulties. If such financial difficulties occur and may result in the Sponsor's determination to declare the Academy to be on probationary status, to suspend the operations of the Academy, or terminate the contract. In such circumstances, the Sponsor shall provide written notice to ODE within 30 days of the Academy's noncompliance or financial difficulties, specifying the exact nature of the problem and the plan for and status of any resolution;
- Take steps to intervene in the Academy's operation to correct problems with overall performance, declare the Academy to be on a probationary status pursuant to Ohio Revised Code Section 3314.073, suspend the operation of the Academy pursuant to Ohio Revised Code 3314.072 or terminate the contract pursuant to Ohio Revised Code Section 3314.07;
- Have in place a plan of action to be undertaken in the event the Academy experiences financial difficulties or closes prior to the end of a school year.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - SPONSOR CONTRACT - (Continued)

The Academy pays up to a 3 percent sponsorship fee for oversight and monitoring. The Academy paid \$33,191 in sponsor fees during fiscal year 2017.

NOTE 12 - 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. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on the accrual basis 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - 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 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, 2017, 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 \$44,166 for fiscal year 2017. Of this amount, \$6,603 is reported as an intergovernmental payable.

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 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 2017 contribution rates were equal to the statutory maximum rates.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Academy's contractually required contribution to STRS was \$51,068 for fiscal year 2017. Of this amount, \$7,087 is reported as an intergovernmental payable.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.00580960%	0.00225767%	
Proportion of the net pension liability current measurement date	<u>0.01044530%</u>	<u>0.00328330%</u>	
Change in proportionate share	<u>0.00463570%</u>	<u>0.00102563%</u>	
Proportionate share of the net pension liability	\$ 764,500	\$ 1,099,019	\$ 1,863,519
Pension expense	\$ 257,542	\$ 341,338	\$ 598,880

At June 30, 2017, the Academy reported deferred outflows 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	\$ 10,311	\$ 44,406	\$ 54,717
Net difference between projected and actual earnings on pension plan investments	63,062	91,250	154,312
Changes of assumptions	51,034	-	51,034
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	350,449	624,566	975,015
Academy contributions subsequent to the measurement date	<u>44,166</u>	<u>51,068</u>	<u>95,234</u>
Total deferred outflows of resources	<u>\$ 519,022</u>	<u>\$ 811,290</u>	<u>\$ 1,330,312</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$95,234 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, 2018. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2018	\$ 175,414	\$ 210,160	\$ 385,574
2019	175,372	210,162	385,534
2020	105,942	245,174	351,116
2021	18,128	94,726	112,854
Total	\$ 474,856	\$ 760,222	\$ 1,235,078

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, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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 average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
 Total	 <u>100.00 %</u>	

**BERWYN EAST ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 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 (7.50 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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$ 1,012,150	\$ 764,500	\$ 557,206

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, 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, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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
Total	100.00 %	7.61 %

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 1,460,508	\$ 1,099,019	\$ 794,083

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to Academy's NPL is expected to be significant.

NOTE 13 - 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 2017, 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 2017, this amount was \$23,500. 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 2017, the Academy's surcharge obligation was \$3,242.

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$3,242, \$3,796, and \$3,003, respectively. The fiscal year 2017 amount has been reported as an intergovernmental payable at June 30, 2017. The full amount has been contributed for fiscal years 2016 and 2015.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - 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 law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. None of the Academy's contributions were allocated to fund health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 14 - CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous federal, State and local 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 position of the Academy.

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. School Foundation

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - CONTINGENCIES - (Continued)

As a result of the fiscal year 2017 reviews, the Academy is due \$91,161 from ODE. \$25,453 was included in the financial statements as an intergovernmental receivable.

In addition, the Academy's contract with their Sponsor requires payment based on revenues received from the State. As discussed above, the Academy is due \$91,161 from ODE as a result of the fiscal year 2017 FTE reviews. The Academy owes \$2,735 to their Sponsor as a result. This amount has not been included in the financial statements.

NOTE 15 - SUBSEQUENT EVENTS

The Academy entered into a Management Agreement with Accel Schools Ohio, LLC, a Delaware limited liability company, on February 15, 2017, effective July 1, 2017, for a period of 3 years, ending June 30, 2020.

The Academy revised their charter to extend grade levels from Kindergarten through 6th to Kindergarten through 8th, effective for the 2017-2018 school year.

The Academy changed their name to Eastland Preparatory Academy effective March 20, 2018.

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REQUIRED SUPPLEMENTARY INFORMATION

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

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 TWO FISCAL YEARS

	2017	2016
Academy's proportion of the net pension liability	0.01044530%	0.00580960%
Academy's proportionate share of the net pension liability	\$ 764,500	\$ 331,501
Academy's covered-employee payroll	\$ 344,971	\$ 174,901
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	221.61%	189.54%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%

Note: Information prior to 2016 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

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

	2017	2016
Academy's proportion of the net pension liability	0.00328330%	0.00225767%
Academy's proportionate share of the net pension liability	\$ 1,099,019	\$ 623,954
Academy's covered-employee payroll	\$ 357,436	\$ 273,886
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	307.47%	227.82%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%

Note: Information prior to 2016 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Note: Information presented for each fiscal year were determined as of the Academy's measurement date, which is the prior year-end.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 44,166	\$ 48,296	\$ 23,052
Contributions in relation to the contractually required contribution	<u>(44,166)</u>	<u>(48,296)</u>	<u>(23,052)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 315,471	\$ 344,971	\$ 174,901
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%

Note: The Academy began contributing to SERS during fiscal year 2015.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 51,068	\$ 50,041	\$ 38,344
Contributions in relation to the contractually required contribution	<u>(51,068)</u>	<u>(50,041)</u>	<u>(38,344)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 364,771	\$ 357,436	\$ 273,886
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%

Note: The Academy began contributing to STRS during fiscal year 2015.

**BERWYN EAST ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 2015-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2015-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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 2015-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2015-2017. 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*

Berwyn East Academy
Franklin County
1850 Bostwick Road
Columbus, Ohio 43227

To the Board of Directors:

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 the Berwyn East Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated July 3, 2018.

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 report 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 initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

July 3, 2018



Dave Yost • Auditor of State

BERWYN EAST ACADEMY

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
JULY 31, 2018**