



Dave Yost • Auditor of State

**GARFIELD ACADEMY
STARK COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets.....	7
Statement of Revenues, Expenses, and Changes in Net Assets.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	10
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Independent Accountants' Report on Applying Agreed Upon Procedures	21

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Garfield Academy
Stark County
1379 Garfield Avenue SW.
Canton, Ohio 44706

To the Board of Directors:

We have audited the accompanying financial statements of Garfield Academy, Stark County, Ohio (the School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Garfield Academy, Stark County, Ohio, as of June 30, 2012, and the changes in financial position its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2103, on our consideration of the School'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

April 22, 2013

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)**

The discussion and analysis of the Garfield Academy's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their **Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments** issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. Due to the fact that this is the School's first year; comparative information will not be available until next year.

Financial Highlights

- In total, net assets were \$632.
- Total assets were \$254,326. This number is comprised of the current assets.
- Liabilities were \$253,694. This number is made up of all of the School's payables at the end of the year.

Using this Financial Report

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

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)**

Statement of Net Assets

The Statement of Net Assets answers the question of how the School performed financially during 2012. This statement includes all assets, liabilities, and net assets, both financial and capital and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the School's net assets for fiscal year 2012. In future years, a comparison will be made to previous year.

(Table 1)

Statement of Net Assets

	<u>2012</u>
Assets	
Current assets	<u>\$ 254,326</u>
Liabilities	
Current liabilities	<u>\$ 253,694</u>
Net Assets	
Total net assets	<u>\$ 632</u>

Total assets were \$254,326, primarily comprised of a large amount of current assets such as cash, state funding receivable, and grants funding receivable, at year-end. Liabilities were \$253,694 due to the large grant funding and continuing fees payable amounts at year-end. The School operates under a management agreement with BHA Canton, LLC. Under the terms of the management agreement, BHA Canton, LLC is paid a 100% of the School's grant funding that is received (see notes to the financial statements, note 10).

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)**

Statement of Revenues, Expenses, and Changes in Net Assets

Table 2 shows the change in net assets for fiscal year 2012. In future years, a comparison will be made to previous year.

(Table 2)

Change in Net Assets

	2012
Operating revenue	
State aid	\$ 1,979,568
Non-operating revenues	
Grants	442,844
Total revenues	2,422,412
Operating expenses	
Purchased services: management fees	1,900,385
Purchased services: grant programs	442,844
Sponsorship fees	59,387
Board of education	850
Legal	12,812
Advertising	320
Insurance	5,157
Miscellaneous	25
Total expenses	2,421,780
Change in net assets	\$ 632

The School's operating and non-operating revenues in 2012 were the result of the School's full-time equivalent (FTE) enrollment and the School's federal grant funding received throughout the year. The School's most significant expenses, "Purchased services: management fees" are a result of the management agreement in place between the School and BHA Canton, LLC. The agreement provides that specific percentages of the revenues received by the School will be paid to BHA Canton, LLC to fund operations (see notes to the financial statements, note 10).

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)**

Capital Assets

At the end of fiscal year 2012 the School had no capital assets.

Current Financial Issues

Garfield Academy received revenue for 258 students in 2012. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from state aid. Per pupil revenue from state aid for the School averaged \$7,673 in fiscal year 2012. The School receives additional revenues from grant subsidies.

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

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Fiscal Officer at 121 South Main Street, Suite 200, Akron, Ohio 44308.

**GARFIELD ACADEMY
STARK COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012**

ASSETS

Current assets

Cash and cash equivalents	\$ 17,748
Prepaid expense	5,157
State funding receivable	40,884
Grants funding receivable	<u>190,537</u>

Total assets	<u><u>\$ 254,326</u></u>
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LIABILITIES

Current liabilities

Accounts payable	\$ 1,493
Sponsorship fees payable	1,227
Grants funding payable	204,195
Continuing fees payable	<u>46,779</u>

Total liabilities	<u><u>\$ 253,694</u></u>
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NET ASSETS

Unrestricted	<u>632</u>
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Total net assets	<u><u>\$ 632</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**GARFIELD ACADEMY
STARK COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

OPERATING REVENUE

State aid	\$ 1,979,568
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OPERATING EXPENSES

Purchased services: management fees	1,900,385
Purchased services: grant programs	442,844
Sponsorship fees	59,387
Legal	12,812
Advertising	320
Insurance	5,157
Board of education	850
Miscellaneous	25
Total operating expenses	2,421,780
Operating loss	(442,212)

NON-OPERATING REVENUE

Grants	442,844
Change in net assets	632
Net assets, July 1, 2011	-
Net assets, June 30, 2012	\$ 632

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

**GARFIELD ACADEMY
STARK COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from state and federal sources	\$ 1,938,684
Cash payments to suppliers for goods and services	<u>(2,173,243)</u>
Net cash used for operating activities	<u>(234,559)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from grant programs	252,307
Net increase in cash and cash equivalents	17,748
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 17,748</u>

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

Operating loss	<u>\$ (442,212)</u>
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Changes in assets and liabilities:	
State funding receivable	(40,884)
Prepaid expense	(5,157)
Sponsorship fees payable	1,227
Accounts payable	1,493
Grants funding payable	204,195
Continuing fees payable	<u>46,779</u>
Total adjustments	<u>207,653</u>
Net cash used for operating activities	<u>\$ (234,559)</u>

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

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Garfield Academy (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with BHA Canton, LLC for most of its functions (see note 10).

The School signed a contract with Buckeye Community Hope Foundation (Buckeye) to operate for a period from July 1, 2011 through June 30, 2015. The School operates under a self-appointing, five-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by BHA Canton, LLC. The facility is staffed with teaching personnel employed by BHA Canton, LLC, who provide services to 258 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with GASB pronouncements. The School does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described on the following pages.

A. BASIS OF PRESENTATION

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

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. BUDGETARY PROCESS

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2012. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. CASH AND CASH EQUIVALENTS

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

E. INTERGOVERNMENTAL REVENUES

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2012 school year totaled \$2,422,412.

F. CAPITAL ASSETS AND DEPRECIATION

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

As of June 30, 2012, the School had no capital assets.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. USE OF ESTIMATES

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets consist of unrestricted net assets.

I. OPERATING REVENUES AND EXPENSES

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

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all School deposits was \$17,748. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, none of the School's bank balance of \$17,748 was exposed to custodial risk as discussed below, since all of the bank balance was covered by the Federal Depository Insurance Corporation.

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

B. Investments

As of June 30, 2012, the School had no investments.

4. CONTINUING FEES PAYABLE

A "Continuing fees payable" to BHA Canton, LLC has been recorded by the School in the amount of \$39,249 for 96 percent of the "State funding receivable" due from the State for the final FTE calculation (see note 5). An additional payable for \$7,530 is included in "Continuing fees payable" to BHA Canton, LLC for additional fees owed during fiscal year 2012.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

5. STATE FUNDING RECEIVABLE

The School has recognized on its Statement of Net Assets a "State funding receivable" for the amount of state aid directly related to student full-time equivalent (FTE), estimated to be refunded by the Ohio Department of Education (ODE) to the School based on the difference in the amount the School actually received versus the amount earned through student FTE enrollment as determined at the end of the year. A receivable reflects that the School was funded on a lower estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year-end. At June 30, 2012, the amount of "State funding receivable" was \$40,884.

6. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants funding receivable" in the amount of \$190,537 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2012.

Additionally, under the terms of the management agreement (see note 10), the School has recorded a liability to BHA Canton, LLC in the amount of \$204,195 for 100 percent of any State and Federal monies uncollected or unpaid to BHA Canton, LLC as of June 30, 2012.

7. SPONSORSHIP FEES PAYABLE

A "Sponsorship fees payable" to Buckeye has been recorded by the School in the amount of \$1,227 for three percent (3%) of the "State funding receivable" due from the State for the FTE liability (see note 4).

8. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2012, the School had no assets.

9. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with BHA Canton, LLC, BHA Canton, LLC has contracted with an insurance company for property and general liability insurance pursuant to the management agreement (see note 10).

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

10. AGREEMENT WITH BHA CANTON, LLC

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

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

10. AGREEMENT WITH BHA CANTON, LLC (Continued)

grants or funding of any kind generated by BHA Canton, LLC, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any. The continuing fee is paid to BHA Canton, LLC based on the qualified gross revenues.

The School had purchased service expense for the year ended June 30, 2012, to BHA Canton, LLC, of \$2,343,229 of which \$250,974 was payable to BHA Canton, LLC at June 30, 2012. BHA Canton, LLC will be responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

11. SPONSORSHIP FEES

Under the sponsor contract with Buckeye, the School pays to Buckeye three percent (3%) of all state funds received each year, in consideration for the time, organization, oversight, fees and costs of the Buckeye. Such fees are paid to the Buckeye monthly. As indicated on the Statement of Revenues, Expenses, and Changes in Net Assets, the School incurred \$59,387 in sponsorship fees to Buckeye.

12. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2012, BHA Canton, LLC and its affiliates incurred the following expenses on behalf of the School:

	2012
Expenses	
Direct Expenses:	
Salaries and wages	\$ 907,707
Employees' benefits	319,386
Professional and technical services	284,851
Property services	253,465
Travel	3,945
Communications	6,259
Utilities	66,437
Books, periodicals, and films	37,834
Food and related supplies	87,014
Other supplies	54,917
Depreciation	36,340
Other direct costs	61,820
Indirect expenses:	
Overhead	340,746
Total expenses	\$ 2,460,721

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

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

13. DEFINED BENEFIT PENSION PLANS

The School has contracted with BHA Canton, LLC to provide employee services and to pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to each of the systems noted below (see note 10).

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

Plan Description – BHA Canton, LLC, on behalf of the School, contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits: annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description – BHA Canton, LLC, on behalf of the School, participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. BHA Canton, LLC, on behalf of the School, was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

BHA Canton, LLC' required contributions on behalf of the School for pension obligations to STRS Ohio for the fiscal year ended June 30, 2012, was \$83,684; 100 percent has been contributed for fiscal year 2012. Contributions to the DC and Combined Plans for fiscal year 2012 were \$6,081 made by the School and \$4,343 made by the plan members.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2012, there were no members that elected Social Security.

14. POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

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

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (Continued)

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

Health Care Plan- ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. BHA Canton, LLC's contributions on behalf of the School assigned to health care for the year ended June 30, 2012, was \$6,786.

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

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

B. STATE TEACHERS RETIREMENT SYSTEM

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

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal year ended June 30, 2012, was \$6,437; 100 percent has been contributed for fiscal year 2012.

15. CONTINGENCES

Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

16. SUBSEQUENT EVENTS

As of June 30, 2012, the School had not applied applied for their tax exempt status. However, in September 2012, the School received approval to operate as a 501(c)3 entity.



Dave Yost • Auditor of State

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

Garfield Academy
Stark County
1379 Garfield Avenue SW.
Canton, Ohio 44706

To the Board of Directors:

We have audited the financial statements of Garfield Academy, Stark County, Ohio (the school) as of and for the year ended June 30, 2012, and have issued our report thereon dated April 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the School'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, providing an opinion 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*.

We intend this report solely for the information and use of management, Board of Directors, the Community School's sponsor and others within the School. We intend it for no one other than these specified parties.

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

April 22, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Garfield Academy
Stark County
1379 Garfield Avenue SW.
Canton, Ohio 44706

To the Board of Education:

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 Garfield Academy (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. We noted the Board adopted an anti-harassment policy at its meeting on June 14, 2011.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (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 district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district 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.
- (11) We noted the Academy's anti-harassment policy includes violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 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

April 30, 2012



Dave Yost • Auditor of State

GARFIELD ACADEMY

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 16, 2013**