

Rittman Academy
Wayne County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2013



Dave Yost • Auditor of State

Board of Directors
Rittman Academy
100 Saurer Street
Rittman, OH 44270

We have reviewed the *Independent Auditors' Report* of the Rittman Academy, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Rittman Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

November 13, 2013

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**RITTMAN ACADEMY
WAYNE COUNTY, OHIO**

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September 25, 2013

To the Board of Directors
Rittman Academy
Wayne County, Ohio
100 Saurer Street
Rittman, OH 44270

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Rittman Academy, Wayne County, Ohio, (the Academy), a component unit of the Rittman Exempted Village School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Rittman Academy, Wayne County, Ohio, as of June 30, 2013, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 4, the Academy restated the beginning net position balance as a result of prior year adjustments to capital assets, accumulated depreciation and net investment in capital assets. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Hea & Associates, Inc.

New Philadelphia, Ohio

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Rittman Academy
Wayne County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

The discussion and analysis of Rittman Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2013. 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 the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- Capital assets increased \$10,249 in fiscal year 2013.
- Total net position increased \$17,534 in fiscal year 2013.
- Current assets increased \$11,348 in fiscal year 2013.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a financial whole, an entire operating entity.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how the Academy did financially during the fiscal year ended June 30, 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private sector companies. This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

These statements report the Academy's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the Academy has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

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

The Academy reports its operations using enterprise fund accounting. All financial transactions and accounts are reported as one activity; therefore, the entity wide and fund presentations information is the same.

Rittman Academy
Wayne County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Reporting the Academy as a Whole

Recall the Statements of Net Position provides the perspective of the Academy as a whole.

Table 1 provides a summary of the Academy's net position for 2013 compared to 2012:

Table 1
Net Position

	2013	Restated 2012
Assets		
Current Assets	\$ 328,327	\$ 316,979
Noncurrent Assets	<u>39,752</u>	<u>29,503</u>
<i>Total Assets</i>	<u>368,079</u>	<u>346,482</u>
Liabilities		
Current Liabilities	<u>12,839</u>	<u>8,776</u>
Net Position		
Net Investment in Capital Assets	39,752	29,503
Restricted	7,734	0
Unrestricted	<u>307,754</u>	<u>308,203</u>
<i>Total Net Position</i>	<u>\$ 355,240</u>	<u>\$ 337,706</u>

Total assets were \$368,079 in fiscal year 2013. The increase of \$10,249 in capital assets is primarily due to purchases exceeding depreciation of capital assets. The increase of \$11,348 in current assets is due to an increase in grants receivable.

Rittman Academy
Wayne County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Financial Analysis

Table 2 shows the changes in net position for fiscal year 2013 compared 2012:

Table 2
Changes in Net Position

	2013	Restated 2012
Operating Revenue		
Foundation payments	\$ 227,386	\$ 198,651
 Non-Operating Revenues (Expense)		
State and federal grants	8,054	0
 <i>Total Revenues</i>	235,440	198,651
 Operating Expenses:		
Salaries	27,659	22,914
Fringe benefits	3,567	3,046
Purchased services	131,053	129,945
Materials and supplies	8,655	2,781
Depreciation	26,281	24,341
Other	20,691	7,257
<i>Total operating expenses</i>	217,906	190,284
<i>Change in Net Position</i>	17,534	8,367
 <i>Net position, beginning of year</i>	337,706	329,339
 <i>Net position, end of year</i>	\$ 355,240	\$ 337,706

The Statement of Revenues, Expenses and Changes in Net Position show the cost of operating expenses and the revenues offsetting those services.

The dependence upon state foundation revenues for operating activities is apparent. The Academy's foundation revenue is 97 percent of total revenue. State sources are by far the primary support for the Rittman Academy.

The Academy did received \$8,054 in state or federal grants during fiscal year 2013. All awards were recognized in the current year.

The Academy's revenue increased from 2012 to 2013. This increase is due to new foundation money and an increase in enrollment, which also directly caused the increase in expenses.

Rittman Academy
Wayne County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Budget

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the Academy had \$39,752 (net of \$69,802 in accumulated depreciation) invested in furniture, fixtures and equipment. Table 3 shows fiscal year 2013 balances compared to 2012. More detailed information is presented in Note 5 of the notes to the basic financial statements.

Table 3
Capital Assets (Net of Depreciation)

	2013	Restated 2012
Furniture, Fixtures and Equipment	<u>\$ 39,752</u>	<u>\$ 29,503</u>

Debt

The Academy did not incur any debt during the fiscal year ended June 30, 2013.

**Rittman Academy
Wayne County, Ohio**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

Current Financial Related Activities

The Academy is sponsored by the Rittman Exempted Village School District with a contract that is in effect through June 30, 2013. The Academy relies on State Foundation Funds, which is driven by student enrollment. The Academy also received Federal Funds through the Comprehensive Continuous Improvement Planning application that is provided by the Ohio Department of Education.

The future of the Academy is dependent upon continued funding from the State Foundation Funds and student enrollment as no local revenue can be generated through tuition or property taxes. It is the intention of the management of the Academy to pursue other State and Federal grants as they become available.

The Academy has committed itself to providing a quality online educational opportunity to students in a school setting and has provided full time academic help for students. The Academy's curriculum is developed to help students reach graduation in a non-traditional setting. The management will aggressively pursue adequate funding to secure the financial stability of the Academy. The management will work to maintain an enrollment level that will provide financial stability to the school.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, investors 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 any questions about this report or need additional information, contact Mark Dickerhoof, Treasurer, at Rittman Academy, 100 Saurer Street, Rittman, Ohio 44270.

Rittman Academy
Wayne County, Ohio
Statement of Net Position
June 30, 2013

Assets

Current Assets:

Cash and Cash Equivalents	\$ 303,088
Intergovernmental Receivable	8,850
Prepaid Items	<u>16,389</u>

Total Current Assets 328,327

Noncurrent Assets:

Depreciable Capital Assets, Net	<u>39,752</u>
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Total Assets 368,079

Liabilities

Current Liabilities:

Intergovernmental Payable	<u>12,839</u>
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Net Position

Net Investment in Capital Assets	39,752
Restricted for Other Purposes	7,734
Unrestricted	<u>307,754</u>

Total Net Position \$ 355,240

See accompanying notes to the basic financial statements.

Rittman Academy
Wayne County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

Operating Revenues	
Foundation Payments	<u>\$ 227,386</u>
Operating Expenses	
Salaries	27,659
Fringe Benefits	3,567
Purchased Services	131,053
Materials and Supplies	8,655
Depreciation	26,281
Other	<u>20,691</u>
<i>Total Operating Expenses</i>	<u>217,906</u>
<i>Operating Income</i>	<u>9,480</u>
Non-Operating Revenues	
Federal and State Grants	<u>8,054</u>
<i>Change in Net Position</i>	17,534
<i>Net Position Beginning of Year - Restated (See Note 4)</i>	<u>337,706</u>
<i>Net Position End of Year</i>	<u><u>\$ 355,240</u></u>

See accompanying notes to the basic financial statements.

Rittman Academy
Wayne County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Cash Flows From Operating Activities	
Cash Received from State Foundation	\$ 227,386
Cash Payments for Purchased Goods and Services	(110,601)
Cash Payments for Materials and Supplies	(8,655)
Cash Payments for Salaries and Benefits	(31,659)
Cash Payments for Other Expenses	<u>(20,691)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>55,780</u>
Cash Flows From Non-Capital Financing Activities	
Grants Received	<u>1,132</u>
Cash Flows From Capital and Related Activities	
Payments for Capital Acquisitions	<u>(36,530)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	20,382
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>282,706</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 303,088</u></u>
Reconciliation of Operating Income to	
Net Cash Provided by Operating Activities	
<i>Operating Income</i>	\$ 9,480
Adjustments:	
Depreciation	26,281
(Increase) Decrease Assets	
Intergovernmental Receivable	(433)
Prepaid Items	16,389
Increase (Decrease) in Liabilities	
Intergovernmental Payable	<u>4,063</u>
<i>Total Adjustments</i>	<u>46,300</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 55,780</u></u>

See accompanying notes to the basic financial statements.

Rittman Academy
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Rittman Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to educate students in kindergarten through twelfth grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Board of Education of the Rittman Exempted Village Schools (the Sponsor) for a period of five year commencing with fiscal year July 1, 2008 through June 30, 2013. A contract authorizing continued operation of the Academy was executed in May 2013 covering the period of July 1, 2013 through June 30, 2018. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Academy operates under a five-member Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy is considered a component unit of the Rittman Exempted Village School District ("the Sponsor") for reporting purposes, in accordance with Governmental Accounting Standard Board (GASB) Statement No. 14 and 61.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Rittman Academy
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment 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 balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, with the exception of 5705.391. All other budgetary provisions are not required to be followed, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

D. Cash and Cash Equivalents

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. The Academy had no investments in fiscal year 2013.

E. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure and does not capitalize interest costs.

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 expensed.

Depreciation of furniture, fixtures and equipment is computed using the straight-line method over estimated useful lives of three years.

Rittman Academy
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

G. Tax Exemption Status

The Academy is a non-profit organization that, in the opinion of legal counsel, is exempt from federal income taxes due to the Academy's status as an integral part of its sponsoring political subdivision, the Rittman Exempted Village Schools.

H. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position restricted for other purposes consist of grants.

I. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable. The Academy received \$227,386 for the year ended June 30, 2013.

Grants and entitlements 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 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. In fiscal year 2013, the Academy participated in several state and federal grant programs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements. Amounts received under the grant programs for the year ended June 30, 2013, totaled \$8,054.

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.

Rittman Academy
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2013.

L. Estimates

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

M. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2013, the Academy has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34," GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," and GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Academy.

GASB Statement No. 61 improves guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Academy.

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Academy.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

Rittman Academy
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

NOTE 3 - DEPOSITS

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Academy's name. During fiscal year 2013, the Academy and public depositories complied with the provisions of these statutes.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Academy's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

At June 30, 2013, the carrying amount of the Academy's deposits was \$303,088. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2013, the Academy's entire bank balance of \$303,530 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the Academy.

NOTE 4 - RESTATEMENT OF NET POSITION

During fiscal year 2013 it was determined that numerous capital assets being reported had been disposed of in prior fiscal years. There were also errors detected in the depreciation of certain capital assets. Net position at June 30, 2012 has been restated as follows:

Net Position Previously Reported at June 30, 2012	\$ 367,276
Overstatement of Capital Assets	<u>(29,570)</u>
Restated Net Position at July 1, 2012	<u>\$ 337,706</u>

Rittman Academy
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

NOTE 5 - CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2013:

	Restated Balance <u>6/30/2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2013</u>
Furniture, Fixtures and Equipment	\$ 73,024	\$ 36,530	\$ 0	\$ 109,554
Less: Accumulated Depreciation	<u>(43,521)</u>	<u>(26,281)</u>	<u>0</u>	<u>(69,802)</u>
<i>Net Capital Assets</i>	<u>\$ 29,503</u>	<u>\$ 10,249</u>	<u>\$ 0</u>	<u>\$ 39,752</u>

NOTE 6 - PURCHASED SERVICES

For the fiscal year ended June 30, 2013, purchased service expenses were recognized for professional services rendered by various vendors as follows:

Tri-County Educational Service Center	\$ 89,685
NCS Pearson	16,389
Other	<u>24,979</u>
	<u>\$ 131,053</u>

For the fiscal year ended June 30, 2013, Rittman Academy recognized \$89,685 in expenses for educational services and curriculum provided by the Tri-County Educational Service Center.

The Academy paid NCS Pearson \$65,556 for a four year subscription to their curriculum services for fiscal years 2011-2014, of which \$16,389 has been reported as a prepaid asset.

NOTE 7 - 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 employees: and natural disasters. For the year ended June 30, 2013, the Academy contracted with Cincinnati Insurance Company. Settlements have not exceeded coverage in any of the last three fiscal years. There has not been any reduction in coverage from the prior fiscal year.

Rittman Academy
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy 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 43215-3746 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 the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Academy’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,425, \$642 and \$344, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

B. State Teachers Retirement System

Plan Description - The Academy 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 publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Rittman Academy
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 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 of 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The Academy 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 employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,961, \$1,950 and \$1,861, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**Rittman Academy
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013*

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The Academy participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B 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. A prescription drug plan 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 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 monthly premium for calendar year 2012 (the latest information available) 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. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources. The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio ("STRS Ohio"), and to retired non-certified employees and their dependents through the School Employees Retirement System ("SERS"). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, .16 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. 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. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**Rittman Academy
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013*

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012, and 2011 were \$17, \$28, and \$42, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was 0.74 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$81, \$38, and \$22, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

B. State Teachers Retirement System

Plan Description - The Academy contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (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 fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$151, \$150, and \$143, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

NOTE 10 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2013, if applicable, cannot be determined at this time.

**Rittman Academy
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013*

B. Full-Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to state funding for fiscal year 2013, as a result of such review.

NOTE 11 - RELATED PARTY TRANSACTION

For the period July 1, 2012 through June 30, 2013 the Academy paid expenses of \$33,506 to their sponsor. Of this amount, \$9,771 was for fiscal services, \$9,591 was for educational facility costs, \$13,374 sponsor fees and \$770 for other expenses.

September 25, 2013

To the Board of Directors
Rittman Academy
Wayne County, Ohio
100 Saurer Street
Rittman, OH 44270

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rittman Academy, Wayne County, Ohio (the Academy), a component unit of the Rittman Exempted Village School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated September 25, 2013 in which we noted the Academy restated the beginning net position balance as a result of prior year adjustments to capital assets, accumulated depreciation and net investment in capital assets.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal *control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001 described in the accompanying *Schedule of Findings and Responses* to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Academy's Response to Findings

The Academy's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Responses*. The Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

New Philadelphia, Ohio

Rittman Academy
Wayne County, Ohio
Schedule of Findings and Responses
June 30, 2013

1. SUMMARY OF AUDITOR'S RESULTS
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Type of Financial Statement Opinion	Unmodified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
Was there any reported material non-compliance at the financial statement level (GAGAS)?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number: 2013-001
Material Weakness

Criteria: A necessary step in internal control over financial reporting is to maintain and update capital asset records.

Condition: During the performance of further audit procedures, we noted the Academy had assigned a useful life of five years to computer equipment. The Academy has a history of replacing computers every three years, at which point the old computers are obsolete and disposed. We further noted the Academy's capital asset records were not updated to remove capital assets no longer in use by the Academy. Several of those assets had a book value due to an inappropriate useful life assignment.

Cause: The Academy does not have sufficient policies and procedures regarding the accounting for capital assets. A detailed inventory listing does not exist which identifies each asset by a unique tag or serial number. No annual inventory inspection is performed to verify that assets on the inventory list are still in operation. The useful life assigned to computer equipment is not commensurate with the Academy's operations.

Effect: The control deficiency identified in the audit resulted in a material prior period restatement. The lack of controls over the capital asset records increases the risk of misappropriation and error in financial statement reporting.

Recommendation: We recommend the Academy implement policies and procedures to require management to maintain a detailed inventory listing, perform an annual inventory inspection, and require appropriate useful lives to be assigned for the purpose of recording depreciation expense commensurate with Academy operations.

Rittman Academy
Wayne County, Ohio
Schedule of Findings and Responses (continued)
June 30, 2013

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)

Finding Number: 2013-001 (continued)
Material Weakness (continued)

Management's Response: At the September 23, 2013 regular meeting of the Board of Directors, the following revised policy was approved:

CAPITAL ASSETS POLICY

The Academy will maintain a fixed asset accounting system. The fixed asset system contains sufficient information to permit the following.

1. the preparation of year-end financial statements in accordance with generally accepted accounting principles
2. the maintenance of adequate insurance coverage
3. control and accountability

Fixed assets are defined as those tangible assets of the Academy with a useful life in excess of one year and an initial cost equal to or exceeding \$500.00. Some items may be identified as "controlled" assets that, although they do not meet all fixed asset criteria, are to be recorded on the fixed asset system to maintain control. Depreciation expense is calculated using a monthly unit beginning the first month after purchase.

Fixed assets are classified as follows and have a corresponding useful life:

1. land – 50 years
2. buildings – 40 years
3. improvements – 10 years
4. computer equipment – 3 years
5. furniture and fixtures – 5 years
6. vehicles – 7 years

Leased fixed assets are identified and recorded on the fixed asset system. Fixed assets are recorded at actual or, if not determinable, estimated purchase price or fair market value at the time of acquisition. The method(s) to be used to estimate such price or market value are established by the Treasurer. A physical inventory will be done at the end of the school year.

The following information is maintained for all fixed assets:

1. description – to include model number and serial number
2. asset classification (land, building, equipment, etc.)
3. location
4. purchase price
5. date purchased
6. estimated useful life
7. estimated salvage value
8. accumulated depreciation
9. manner of asset disposal

September 25, 2013

To the Board of Directors and Management
Rittman Academy
Wayne County, Ohio
100 Saurer Street
Rittman, Ohio 44270

Independent Accountant's Report on Applying Agreed-Upon Procedure

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 procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Rittman Academy (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School amended its anti-harassment policy at its meeting on September 18, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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 School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

New Philadelphia, Ohio

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Dave Yost • Auditor of State

RITTMAN ACADEMY

WAYNE 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
NOVEMBER 26, 2013**