



Dave Yost • Auditor of State



DISCOVERY ACADEMY  
LUCAS COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Discovery Academy  
Lucas County  
3835 Secor Road  
Toledo, Ohio 43623

To the Governing Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Discovery Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Discovery Academy, Lucas County, Ohio as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2015, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

May 22, 2015

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

The management's discussion and analysis of Discovery Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2014, the Academy's first year of operation. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in its Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A; however, because this is the first year of operation of the school, the comparative information is not presented. In future years this financial information will be provided.

**Financial Highlights**

- Net position was (\$144,988) in 2014.
- Total assets were \$110,721 in 2014.
- Total liabilities were \$255,709 in 2014.

**Using this Annual Report**

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

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

The statement of net position and statement of revenues, expenses, and changes in net position answers the question, "How did we do financially during 2014?" These statements include all assets and liabilities, revenues and expenses using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into the account all revenues and expenses during the year, regardless of when cash is received or paid.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

Table I provides a summary of the Academy's net position for fiscal year 2014:

Table 1	<u>Governmental Activities</u>
<b>Assets</b>	
Current Assets	\$ 83,464
Capital Assets - Net	14,194
Other Noncurrent Assets	13,063
Total assets	<u>110,721</u>
 <b>Liabilities</b>	
Current Liabilities	<u>255,709</u>
 <b>Net Position</b>	
Invested in capital assets	14,194
Unrestricted	(159,182)
Total net position	<u><u>\$ (144,988)</u></u>

Total net position of the Academy was (\$144,988), primarily due to contracts payable and short term loans payable to the management company of \$204,867. Intergovernmental receivables were \$27,708 due to uncollected federal funds. Cash was \$40,631.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

Table 2 shows the change in net position for fiscal year 2014, as well as a listing of revenues and expenses.

	Governmental Activities
<b>Operating Revenues</b>	
Foundation Payments	\$ 742,270
Food Services	5
Other	4,701
Total Operating Revenues	746,976
<b>Operating Expenses</b>	
Purchased Services	946,742
Materials and Supplies	69,406
Depreciation	5,824
Other Expenses	32,013
Total Operating Expenses	1,053,985
Operating Loss	(307,009)
<b>Non-Operating Revenues and Expenses</b>	
Federal Grants	98,660
State Grants	61,789
Contributions	7,650
Interest	(6,078)
Total Non-Operating Revenues and Expenses	162,021
Change in Net Position	(144,988)
Net Position Beginning of Year	-
<b>Net Position End of Year</b>	<b>\$ (144,988)</b>

Net position at the end of the first year of operation was (\$144,988) solely due to excess expenses. Comparative information is not available.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

**Capital Assets**

At the end of fiscal year 2014, the Academy had \$14,194 invested in furniture, fixtures, and equipment (net of depreciation). Table 3 shows capital assets (net of depreciation) for fiscal year 2014.

Table 3

Furniture, fixtures and equipment	\$ 14,194
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For more information on capital assets, see Note 5 to the basic financial statements.

**Debt Administration**

Academy's outstanding debt totaled \$87,000 at June 30, 2013. This represents the amount of the note principal borrowings from RBS Citizen Bank and short term loans from The Leona Group, LLC (the "Management Company") less the note and short term loans principle reduction payments during the fiscal year.

**Current Financial Issues**

Discovery Academy was formed in 2013 under a contract with the Ohio Department of Education. During the 2013-2014 school year there were 110 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2014 amounted to \$742,346.

**Contacting the Academy's Financial Management**

The financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact Don Ash, Fiscal Officer of Discovery Academy, 2125 University Park Drive, Okemos, MI 48864 or e-mail at don.ash@leonagroup.com.

DISCOVERY ACADEMY  
LUCAS COUNTY

STATEMENT OF NET POSITION  
JUNE 30, 2014

**Assets**

Current Assets:

Cash and Cash Equivalents	\$	40,631
Intergovernmental Receivables		27,708
Prepaid Items		15,125
<i>Total Current Assets</i>		<u>83,464</u>

Non-Current Assets:

Security Deposits		13,063
Depreciable Capital Assets, Net		14,194
<i>Total Non-Current Assets</i>		<u>27,257</u>

<i>Total Assets</i>		<u>110,721</u>
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**Liabilities**

Current Liabilities:

Accounts Payable		2,938
Accrued Wages Payable		5,428
STRS-SERS Payable		2,288
Contracts Payable		157,867
Short Term Loans Payable		47,000
Interest Payable		112
Notes Payable - Current Portion		40,000
Intergovernmental Payable		76
<i>Total Current Liabilities</i>		<u>255,709</u>

<i>Total Liabilities</i>		<u>255,709</u>
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**Net Position**

Invested in Capital Assets		14,194
Unrestricted		<u>(159,182)</u>
<i>Total Net Position</i>	\$	<u><u>(144,988)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<b>Operating Revenues</b>	
Foundation Payments	\$ 742,270
Food Services	5
Other Revenues	<u>4,701</u>
<i>Total Operating Revenues</i>	<u>746,976</u>
<b>Operating Expenses</b>	
Purchased Services	946,742
Materials and Supplies	69,406
Depreciation	5,824
Other	<u>32,013</u>
<i>Total Operating Expenses</i>	<u>1,053,985</u>
<i>Operating Loss</i>	<u>(307,009)</u>
<b>Non-Operating Revenues and Expenses</b>	
Federal Grants	98,660
State Grants	61,789
Contributions and Donations	7,650
Interest and Fiscal Charges	<u>(6,078)</u>
<i>Total Non-Operating Revenues and Expenses</i>	<u>162,021</u>
<i>Change in Net Position</i>	(144,988)
<i>Net Position Beginning of Year</i>	<u>                    </u>
<i>Net Position End of Year</i>	<u><u>\$ (144,988)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Increase (Decrease) in Cash and Cash Equivalents:**

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 742,346
Cash Received for Food Services	5
Cash Received from Other Operating Revenues	4,701
Cash Payments to Suppliers for Goods and Services	<u>(907,828)</u>

*Net Cash Used for Operating Activities* (160,776)

Cash Flows from Noncapital Financing Activities:

Other Non-Operating Revenues	
Federal Grants Received	74,246
State Grants Received	58,495
Contributions	150
Proceeds from Short Term Loans	80,100
Payment of Short Term Loans	(33,100)
Proceeds from Notes	400,000
Principal Payments	(360,000)
Interest Payments	<u>(5,965)</u>

*Net Cash Provided by Noncapital Financing Activities* 213,926

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(12,519)</u>
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*Net Increase in Cash and Cash Equivalents* 40,631

*Cash and Cash Equivalents at Beginning of Year*                     

*Cash and Cash Equivalents at End of Year* \$ 40,631

(Continued)

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**Reconciliation of Operating Loss to Net  
Cash Used by Operating Activities:**

Operating Loss	<u>\$ (307,009)</u>
<b>Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities</b>	
Depreciation	5,824
Changes in Assets and Liabilities:	
Increase in Prepaid Items	(15,125)
Increase in Deposits	(13,063)
Increase in Accounts Payable	2,938
Increase in Intergovernmental Payable	76
Increase in STRS-SERS Payable	2,288
Increase in Accrued Wages Payable	5,428
Increase in Contracts Payable	<u>157,867</u>
<i>Total Adjustments</i>	<u>146,233</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ (160,776)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Discovery Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to empower students with tools that they may not otherwise have access to due to economic constraints. There is a need to enable them to envision the world beyond their own neighborhood. It is our desire to expose them to people and places they never would have had an opportunity to meet or see. They will be empowered to see the difference they can make in their own community as they engage in project-based learning. Understanding and using technology will be an integral part of virtually every aspect of daily life for our students. It is our mission to transform the learning process with technology-infused projects beneficial to the community, while promoting collaboration, global awareness, and high student achievement. 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 acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy is sponsored under a contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2013. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. For 2014, the Academy paid \$23,639 to the Sponsor.

The Academy operates under the direction of a five member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's instructional/support facility staffed by two non-certificated personnel and ten certificated teaching personnel who provide services to 110 students.

The Governing Board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of its school. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy 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.

**A. Basis of Presentation**

The Academy's basic financial statements consist of a statement of net position, a statement of revenue, expenses, and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting**

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

**C. Basis of Accounting**

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

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

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

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

**E. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$1,000 for furniture and equipment, library books, land, and buildings, or any one item costing under \$1,000 alone but purchased in a group for over \$2,500. Software costing more than \$10,000 per application is also capitalized. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Capital Assets (Continued)**

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

Furniture, Fixtures and Equipment	7 years
EDP Equipment and Software	3 years
Non-EDP Equipment	6 years

**F. Operating Revenues and Expenses**

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

**G. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**H. Security Deposit**

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$13,063, is held by the lessor.

**3. DEPOSITS**

At June 30, 2014, the carrying amount of all Academy deposits was \$40,631. As of June 30, 2014, the Academy's bank balance was not exposed to custodial risk as discussed below, and all funds were covered by the Federal Deposit Insurance Corporation (the "FDIC").

Custodial credit risk is the risk that, in the event of bank failure, the Academy'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 Academy. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**4. RECEIVABLES**

Receivables at June 30, 2014, consisted mostly of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Title I	\$12,637
Child Nutrition	4,696
IDEA	7,081
Casino Tax Revenue	<u>3,294</u>
Total Intergovernmental Receivables	<u>\$27,708</u>

**5. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014:

	<u>Balance 6/30/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/14</u>
<b>Business-Type Activity</b>				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$ -	\$ 20,018	\$ -	\$ 20,018
Total Capital Assets	<u>-</u>	<u>20,018</u>	<u>-</u>	<u>20,018</u>
Being Depreciated	<u>-</u>	<u>20,018</u>	<u>-</u>	<u>20,018</u>
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	<u>-</u>	<u>(5,824)</u>	<u>-</u>	<u>(5,824)</u>
Total Accumulated Depreciation	<u>-</u>	<u>(5,824)</u>	<u>-</u>	<u>(5,824)</u>
Total Capital Assets				
Being Depreciated, Net	<u>\$ -</u>	<u>\$ 14,194</u>	<u>\$ -</u>	<u>\$ 14,194</u>

**6. RISK MANAGEMENT**

**A. Property and Liability**

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. During fiscal year 2014, the Academy contracted with Philadelphia Insurance Company for general liability, property insurance and educational errors and omissions insurance.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

Coverage is as follows:

Educator's Legal Liability:	
Part 1, D&O Liability, each claim	\$1,000,000
Part 2, Employment Practices, each claim	1,000,000
Aggregate, All Parts	1,000,000
General Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Personal and ADV Injury	1,000,000
Automobile - Hired and Not Owned CSL	1,000,000
Property:	
Personal Property	50,000
BI	100,000
Umbrella	6,000,000

**B. Workers' Compensation**

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

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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 on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% 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, 2014, the allocation to pension and death benefits is 13.10%. The remaining .90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contribution to SERS for the year ended June 30, 2014 was \$7,739, which equaled the required contribution for the year.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System of Ohio**

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits — Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits — Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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.

Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System of Ohio (Continued)**

Combined Plan Benefits — Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 10% of covered payroll for members and 14% for employers. The Academy's required contribution for pension obligations to STRS Ohio for the fiscal year ended June 30, 2014 was \$33,076; 100 percent has been contributed.

Additional information or copies of STRS Ohio's 2014 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

The Medicare Part 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 monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. 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 2014, the actuarially required allocation is .76%. The Academy's contribution for the year ended June 30, 2014 was \$449, which equaled the required contribution for the year.

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% contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is .14%. 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contribution assigned to health care for the year ended June 30, 2014 was \$83.

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 on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

**B. State Teachers Retirement System of Ohio**

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan. Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2014. The 14% employer contribution rate is the maximum rate established under Ohio law. The Academy's contribution for health care for the fiscal year ended June 30, 2014 was \$2,544. 100 percent has been contributed.

**9. CONTINGENCIES**

**A. Student Attendance and 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 funds. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2014, if applicable, cannot be determined at this time.

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. The results of the review of fiscal year 2014 revealed an overpayment to the Academy of \$76.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**10. PURCHASED SERVICE EXPENSES**

For the period ended June 30, 2014, purchased service expenses were payments for services rendered by various vendors, as follows:

<u>Purchased Service Expenses</u>	<u>Amount</u>
Salaries	\$323,858
Fringe Benefits	98,723
Other Professional Services	44,452
The Leona Group, LLC	108,918
Legal Fees	7,255
University of Toledo	23,639
Garbage Removal/Cleaning	2,239
Repairs and Maintenance	6,366
Facility Rental	173,250
Other Rentals and Leases	4,679
Communications	5,799
Advertising	17,392
Contracted Food Service	49,608
Transportation	<u>80,564</u>
 Total Purchased Services	 <u><u>\$946,742</u></u>

**11. OPERATING LEASES**

The Academy entered into a lease with The Sisters of Notre Dame of Toledo, Ohio, for the period July 1, 2013 through June 30, 2016. Rent payments for the fiscal period consist of \$156,750 for base rent and \$16,500 for operating rent to cover Academy's share of utilities.

A security deposit in the amount of \$13,063 is held by the landlord.

The following is a schedule of the future combined minimum payments required under the operating leases as of June 30, 2014.

<u>Fiscal Year Ending June 30,</u>	<u>Facility Lease</u>
2015	\$181,500
2016	<u>189,750</u>
 Total Minimum Lease Payments	 <u><u>\$371,250</u></u>

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**12. NOTES PAYABLE**

Debt Activity during fiscal year 2014 was as follows:

	Balance at 6/30/2013	Additions	Reductions	Balance at 6/30/2014
RBS Citizens Bank	\$ -	\$ 400,000	\$ 360,000	\$ 40,000
The Leona Group, LLC	-	80,100	33,100	47,000
<b>Total</b>	<b>\$ -</b>	<b>\$ 480,100</b>	<b>\$ 393,100</b>	<b>\$ 87,000</b>

The Academy entered into a loan agreement with RBS Citizens NA Bank for \$400,000 on August 29, 2013. The note was used to pay for general operations of the Academy. The note had a floating interest rate equal to the Prime Rate and had a maturity date of June 30, 2014. The final payment on the loan was made on July 1, 2014.

The Academy received short term loans from The Leona Group, LLC for \$80,100 to pay for general operations of the Academy. The short term loans have no interest rate and balance was paid off on October 30, 2014.

**13. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT**

The Academy entered into a five-year contract, effective May 23, 2013 through June 30, 2018, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12% of the per pupil expenditures. The amount paid to TLG for fiscal period 2014 totaled \$108,918. Terms of the contracts require TLG to provide the following:

- A. implementation and administration of the Educational Program;
- B. management of all personnel functions, including professional development;
- C. operation of the school building and the installation of technology integral to school design;
- D. all aspects of the business administration of the Academy;
- E. the provision of food service for the Academy; and
- F. any other function necessary or expedient for the administration of the Academy.

Also, there are expenses that are billed to the Academy based on the actual costs incurred for the Academy by The Leona Group, LLC. These expenses include salaries of The Leona Group, LLC. employees working at the Academy, and other costs related to providing educational and administrative services.

**DISCOVERY ACADEMY  
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**13. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT (Continued)**

For the year ended June 30, 2014, those expenses are as follows:

<u>Related Party Transactions</u>	<u>Amount</u>
Salaries and Wages	\$323,858
Benefits	98,723
Other Professional and Technical Services	13,230
Materials and Supplies	2,428
Communication	87
Advertising	6,442
Other Expenses	<u>1,953</u>
Total Expenses	<u>\$446,721</u>

At June 30, 2014, the Academy had payables to The Leona Group, LLC in the amount of \$210,295. The following is a schedule of payables to The Leona Group, LLC.:

<u>Due to The Leona Group, LLC</u>	<u>Amount</u>
Accrued Wages Payable	\$ 5,428
Short Term Loans Payable	47,000
Contracts Payable	<u>157,867</u>
Total Due	<u>\$210,295</u>

**14. SUBSEQUENT EVENTS**

The Academy entered into a loan with RBS Citizens NA Bank for \$60,000 on September 26, 2014. The note will be used to pay for general operations of the Academy. The note has a floating interest rate equal to the Prime Rate and has a maturity date of June 30, 2015.



# Dave Yost • Auditor of State

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

Discovery Academy  
Lucas County  
3835 Secor Road  
Toledo, Ohio 43623

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Discovery Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2015.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

May 22, 2015



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Discovery Academy  
Lucas County  
3835 Secor Road  
Toledo, Ohio 43623

To the Governing Board:

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

Accordingly, we have performed the procedures enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Discovery Academy, Lucas County, Ohio (the Academy) has adopted 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 these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of these 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 on June 20, 2013.
2. We read the policy, noting it included the following requirements listed in Ohio Rev. Code 3313.666.
  - (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, as amended by House Bill 19 of the 128<sup>th</sup> General Assembly;
  - (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.
3. We noted the Board policy included violence within a dating relationship within its definition of harassment, intimidation or bullying.
  4. We also noted the Board policy included 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 Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.



**Dave Yost**  
Auditor of State

Columbus, Ohio

May 22, 2015



# Dave Yost • Auditor of State

**DISCOVERY ACADEMY**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 9, 2015**