



Dave Yost • Auditor of State

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Imagine Woodbury Academy
Montgomery County
100 E. Woodbury Drive
Dayton, Ohio 45415

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Imagine Woodbury Academy, Montgomery 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 basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of 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 the Imagine Woodbury Academy, Montgomery County 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 December 30, 2014, 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

December 30, 2014

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

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

Financial Highlights

Key financial highlights for 2014 are as follows:

- In total, net position was a deficit of \$184,806 at June 30, 2014.
- The Academy had operating revenues of \$1,236,682, operating expenses of \$1,510,942 and non-operating revenues of \$252,311 for fiscal year 2014. The operating loss was \$274,260 in the Academy's third year of operations.

Using these Basic Financial Statements

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's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2014?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

The table below provides a comparative analysis of fiscal years 2014 and 2013:

Net Position		
	2014	2013
Assets:		
Current assets	\$33,920	\$31,356
Liabilities:		
Current liabilities	35,217	31,256
Long-term liabilities	183,509	162,957
Total liabilities	218,726	194,213
Net Position:		
Unrestricted (deficit)	(184,806)	(162,857)
Total net position (deficit)	(\$184,806)	(\$162,857)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014 and 2013, the Academy's net position totaled deficits of \$184,806 and \$162,857, respectively.

Current assets represent cash, accounts and intergovernmental receivables. The Academy reported an intergovernmental receivable for grants at June 30, 2014 and 2013 in the amount of \$21,366 and \$31,256, respectively.

Current liabilities of \$35,217 and \$31,256 at June 30, 2014 and 2013, respectively, represent accounts payable for professional services. Included in current liabilities at June 30, 2014, is an intergovernmental payable in the amount of \$13,851 due to ODE as a result of the FTE reviews for fiscal year 2014.

Long-term liabilities of \$183,509 and \$162,957 at June 30, 2014 and 2013, respectively, represent advances payable to the Academy's operating company for covering operating expenses (see Note 10 for detail). The advances payable to operating company contributed to the deficit net position at June 30, 2014 (see Note 15 for detail).

The table below shows the changes in net position for fiscal years 2014 and 2013:

Change in Net Position		
	2014	2013
Operating Revenues:		
State foundation	\$1,236,682	\$1,195,398
Total operating revenue	1,236,682	1,195,398
Operating Expenses:		
Materials and supplies	-	33
Management fees	1,333,103	1,205,203
Sponsorship fees	36,608	35,839
Professional services	13,714	1,849
Operating lease payments	117,241	115,281
Other	10,276	10,786
Total operating expenses	1,510,942	1,368,991

(Continued)

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

Change in Net Position (Continued)		
	2014	2013
Non-operating Revenues:		
State and federal grants	252,311	256,230
Other non-operating revenues		5,067
Total non-operating revenues	252,311	261,297
Change in net position	(21,949)	87,704
Net position (deficit) at beginning of year	(162,857)	(250,561)
Net position (deficit) at end of year	(\$184,806)	(\$162,857)

During fiscal year 2014, the Academy provided services to 165 students, compared to 162 students in 2013. The increase in enrollment resulted in the increase in State foundation revenue and overall expenses in fiscal year 2014. The Academy relies on State foundation revenues for operations, with 83.05 and 82.06 percent of total revenues coming from State foundation for fiscal years 2014 and 2013, respectively. Federal and state grants include monies received from the Federal breakfast and lunch, Title VI-B, Title I and Title II-A programs. The Academy contracted with Imagine Schools, Inc. for management services for fiscal years 2014 and 2013 (see Note 9.B to the notes to the financial statements for detail).

Debt

With the exception of advances payable, the Academy had no debt obligations outstanding at June 30, 2014 or June 30, 2013.

Capital Assets

The Academy had no capital assets to report at June 30, 2014, or June 30, 2013.

Restrictions and Other Limitations

The future stability of the Academy is not without challenges. The Academy does not receive any funds from taxes. The primary source of funding is the State foundation program. An economic slowdown in the State could result in budgetary cuts to education, which would have a negative impact on the Academy.

Current Financial Related Activities

The Academy is sponsored by the Warren County Educational Service Center. The Academy is reliant upon State foundation monies and Federal Grants to offer quality, educational services to students.

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

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Todd Johnson, Treasurer, Imagine Woodbury Academy, 100 East Woodbury Drive, Dayton, Ohio 45415.

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**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

Assets:	
Current assets:	
Cash	\$88
Receivables:	
Accounts	12,466
Intergovernmental	21,366
Total assets	<u>33,920</u>
Liabilities:	
Current liabilities:	
Accounts payable	21,366
Intergovernmental payable	13,851
Total current liabilities	<u>35,217</u>
Non-current liabilities:	
Advances payable to operating company	<u>183,509</u>
Total liabilities	<u>218,726</u>
Net position:	
Unrestricted (deficit)	<u>(184,806)</u>
Total net position (deficit)	<u><u>(\$184,806)</u></u>

See accompanying notes to the basic financial statements.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

Operating revenues:

State foundation	\$1,236,682
Total operating revenues	<u>1,236,682</u>

Operating expenses:

Purchased services - management fees	1,333,103
Sponsorship fees	36,608
Professional services	13,714
Operating lease payments	117,241
Other	10,276
Total operating expenses	<u>1,510,942</u>

Operating loss	<u>(274,260)</u>
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Non-operating revenues:

State and Federal grants	252,311
Total non-operating revenues	<u>252,311</u>

Change in net position	(21,949)
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Net position (deficit) at beginning of year	<u>(162,857)</u>
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Net position (deficit) at end of year	<u><u>(\$184,806)</u></u>
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See accompanying notes to the basic financial statements.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

Cash flows from operating activities:

Cash received from state foundation	\$1,250,533
Cash payments for purchased services - management fees	(1,334,907)
Cash payments for sponsorship fees	(36,608)
Cash payments for professional services	(13,714)
Cash payments for operating lease	(117,241)
Cash payments for other expenses	<u>(10,276)</u>
Net cash used in operating activities	<u>(262,213)</u>

Cash flows from noncapital financing activities:

Cash received from state and federal grants	<u>262,201</u>
Net cash provided by noncapital financing activities	<u>262,201</u>

Net decrease in cash (12)

Cash at beginning of year 100
Cash at end of year 88

Reconciliation of operating loss to net

cash used in operating activities:

Operating loss (274,260)

Changes in assets and liabilities:

(Increase) in accounts receivable (12,466)
(Decrease) in accounts payable (9,890)
Increase in intergovernmental payable 13,851
Increase in advances payable to operating company 20,552

Net cash used in operating activities (\$262,213)

The Academy reported intergovernmental receivables in the amount of \$21,366 and \$31,256 at June 30, 2014 and 2013, respectively, for non-operating grants.

The Academy received \$20,552 in advances from Imagine Schools, Inc. during fiscal year 2014.

See accompanying notes to the basic financial statements.

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**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

1. DESCRIPTION OF THE ACADEMY

The Imagine Woodbury Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's objective is to address the needs of students through a student focused standards educational approach for grades kindergarten through fifth 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 under contract with Warren County Educational Service Center (the "Sponsor") commencing on July 1, 2011 and ending on June 30, 2016. Thereafter, the Sponsor may, with the approval of the Governing Authority of the Academy, renew the contract for additional five-year terms from July 1 to June 30. The Sponsor has the authority to put on probation, monitor, remedy probationary conditions, take over as provided in the contract, suspend, or terminate the contract for cause under Ohio Revised Code Chapter 3314.073(B), or non-renew the contract.

The Academy operates under the direction of a Governing Authority which is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers. The Governing Authority controls the Academy's instructional/support facility staffed by employees of the management company who provide services to 165 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The Academy uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

B. Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Academy are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the Academy's finances meet its cash flow needs.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recognized 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. Revenue resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specific 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

The contract between the Academy and its Sponsor prescribes a financial plan detailing an estimated school budget for each year of the period of the contract and specifying the total estimated per pupil expenditure amount for each year in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391 of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Cash

Cash received by the Academy is reflected as "cash" on the statement of net position. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. The Academy did not have any investments during fiscal year 2014.

F. Capital Assets

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The Academy has established a capitalization threshold of \$1,500. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

The Academy had no capital assets to report at June 30, 2014.

G. 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 first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Revenues

The Academy currently participates in the State Foundation, Special Education, Targeted Assistance, K-3 Literacy, Economic Disadvantaged and Facilities Programs. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2014 school year totaled \$1,236,682.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and state grant revenues received during fiscal year 2014 was \$252,311.

I. Accrued Liabilities and Long-Term Obligations

All payables and other accrued liabilities are reported on the statement of net position.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

K. Estimates

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

3. ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2014, the Academy has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are non-exchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Academy.

4. DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2014, the carrying amount of the Academy's deposits and the bank balance was \$88. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

5. RECEIVABLES/PAYABLES

Receivables at June 30, 2014, consisted of accounts receivable and intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

<u>Intergovernmental receivable:</u>	<u>Amount</u>
IDEA-B	\$522
Title I	20,844
Total intergovernmental receivables	<u>\$21,366</u>

Under the terms of the operating contract with Imagine Schools, Inc. (See Note 9.B for detail), the Academy has recorded accounts payable to Imagine Schools, Inc. in the amount of \$21,366, for 100 percent of Federal grant monies uncollected or unpaid as of June 30, 2014.

6. PENSION PLANS

The Academy has contracted with Imagine Schools, Inc. (See Note 9.B) to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to the systems noted below:

A. School Employees Retirement System

Plan Description - Imagine Schools, Inc., on behalf of the Academy, contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, 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 Academy 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 2014, 13.05 percent and 0.05 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 a statutory maximum amount of 14 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, 2014, 2013 and 2012 were \$6,827, \$5,895 and \$10,124, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

6. PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - Imagine Schools, Inc., on behalf of 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 stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 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 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$64,406, \$47,307 and \$23,610, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$4,487 made by the Academy and \$3,525 made by the plan members.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

7. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - Imagine Schools, Inc., on behalf of the Academy, participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. 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 and the 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 the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The 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 Academy's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$73, \$72 and \$438, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$396, \$333 and \$598, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

7. POST-EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - Imagine Schools, Inc., on behalf of 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 report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, 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, 2014, 2013 and 2012 were \$4,954, \$3,639 and \$1,816, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

8. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the Academy maintained the following coverage: general liability, automobile liability, excess/umbrella liability, and building/personal property liability through Philadelphia Indemnity Insurance Co.; and workers compensation and employers' liability through Twin City Fire Insurance Co.

Coverage	Limits of Coverage
General Liability:	
Each occurrence	\$1,000,000
General aggregate	3,000,000
Medical expenses	10,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products – aggregate	3,000,000
 Automobile liability:	
Combined single limit – each accident	1,000,000
 Excess/umbrella liability:	
Each occurrence	15,000,000
Aggregate	15,000,000
Retention	10,000
	(Continued)

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

8. RISK MANAGEMENT (Continued)

<u>Coverage</u>	<u>Limits of Coverage</u>
Building/personal property liability:	
Building limit	2,500,000
Personal property limit	200,000
Deductible	5,000
Coinsurance	90%
Workers compensation and employers' liability:	
Each accident	1,000,000
Disease – each employee	1,000,000
Disease – policy limit	1,000,000

Settled claims have not exceeded commercial coverage in the past three years. There was a reduction in crime liability coverage and directors and officers coverage from the prior year.

9. CONTRACTS

A. Sponsor Contract

The Academy entered into a sponsorship contract commencing on July 1, 2011 and ending on June 30, 2016 with the Warren County Educational Service Center (the "Sponsor") for its establishment. The Sponsor shall carry out the provisions established by the contract, including monitoring and evaluating the following:

- Educational program
- Academic goals/progress measurement
- Performance standards
- Learning opportunities
- Admission procedures
- Dismissal procedures/attendance policy
- Racial and ethnic balancing
- Designation of fiscal officer/treasurer
- Financial records/audits
- Financial plan

For the services listed above, the Academy is required to pay a fee to the Sponsor for the oversight and monitoring of the Academy. The fee is equal to 3 percent of the total amount of the base state per pupil foundation allocation only that the Academy receives from the State. The Academy paid the Sponsor \$36,608 for services during fiscal year 2014.

B. Operating Contract

The Academy entered into an operating contract with Imagine Schools, Inc. for management consulting services. The contract shall continue until termination or expiration without renewal of the charter. Imagine Schools, Inc. is required to provide the following services:

- Personnel and human resources administration
- Program of instruction
- Purchasing and contracts
- Budgeting, financial reporting and audit preparation

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

9. CONTRACTS (Continued)

- Compliance issues
- Curriculum research and development
- Marketing and publicity
- Equipment and facilities
- Grant preparation and management

For the services listed above, the Academy is required to pay a fee to Imagine Schools, Inc. The fee is equal to approximately 90 percent of the total per pupil allowance received from the State of Ohio and of state and/or federal grant funds received by the Academy for the creation and operation of its school. Imagine Schools, Inc. charges the Academy (retains) an amount equaling the excess of unrestricted revenue over expense. Payments to Imagine Schools, Inc. amounted to \$1,333,103 during fiscal year 2014.

10. ADVANCES PAYABLE TO OPERATING COMPANY

The Academy received advances in the amount of \$20,552 during fiscal year 2014 to Imagine Schools, Inc. The advances were made by Imagine Schools, Inc. to cover operating expenses incurred during the prior and current fiscal years. In accordance with the Academy's operating contract with Imagine Schools, Inc. a payable will be recorded for the unpaid cumulative amount of \$183,509 in advances outstanding at June 30, 2014. Per the operating contract, Imagine may charge an interest rate of up to 10 percent on advances not repaid in the same fiscal year. A payment schedule has not been established.

11. OPERATING COMPANY EXPENSES

For the fiscal year ended June 30, 2014, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the Academy:

Expenses:	
Direct Expenses:	
Salaries and wages	\$513,927
Employees' benefits	146,459
Purchased services	372,491
Supplies and materials	42,537
Capital outlay	6,594
Other direct costs	34,226
Indirect Expenses	<u>162,569</u>
Total expenses	<u>\$1,278,803</u>

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

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

12. OPERATING LEASE

The Academy entered into a lease agreement on July 1, 2011, with Schoolhouse Finance, LLC ("SHF") to lease classroom space for the Academy. The term of the lease commenced September 15, 2011, and continues so long as the contract between the Academy and its Sponsor remains in effect, inclusive of any renewals. The Academy shall pay to Schoolhouse Finance, LLC \$112,800 in annual base rent payable in advance in monthly installments of \$9,400 each on the fifteenth day of each month of the term. The base rent shall escalate annually on July 1 at a rate equal to the lesser of the overall Consumer Price Index for the immediately preceding calendar year as reported by the Bureau of Labor Statistics and the maximum amount permitted by law. The lease is a net lease and the Academy shall also pay to SHF additional rent for real property tax and assessments, personal property taxes, insurance premiums, and sales tax. The Academy made \$117,241 in payments to SHF during fiscal year 2014.

13. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure 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. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2014.

B. Ohio Department of Education Enrollment Review

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. As a result of the fiscal year 2014 reviews, the Academy owes ODE \$13,851. This amount has been reported as an intergovernmental payable on the statement of net position.

14. JOINTLY GOVERNED ORGANIZATION

Miami Valley Educational Computer Association

The Academy is a participant in the Miami Valley Educational Computer Association (MVECA), which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia, and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of MVECA consists of three Superintendents and three Treasurers of member school districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fourth Superintendent is from the Greene County Career Center. The Academy paid MVECA \$9,714 for services provided during the year. Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

**IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY**

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

15. MANAGEMENT PLAN

The Academy had an operating loss of \$274,260, a decrease of \$21,949 in net position, and deficit net position of \$184,806 at June 30, 2014. The Academy will pay back \$183,509 in advances payable to Imagine Schools, Inc., as the Academy's financial picture improves and the Academy is eventually able to stand alone financially. Management intends to continue to increase Academy enrollment and improve operating efficiencies.

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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*

Imagine Woodbury Academy
Montgomery County
100 E. Woodbury Drive
Dayton, Ohio 45415

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 the Imagine Woodbury Academy, Montgomery County, (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 December 30, 2014.

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

December 30, 2014

IMAGINE WOODBURY ACADEMY
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Material Weakness – Error in calculation of Advances Payable to Operating Company	Yes	

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IMAGINE WOODBURY ACADEMY

MONTGOMERY 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
JANUARY 27, 2015**