



Dave Yost • Auditor of State

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Watkins Academy
Montgomery County
24 North Jefferson Street
Dayton, Ohio 45402

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Watkins 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 the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watkins 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 May 20, 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 20, 2015

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

The discussion and analysis of Watkins Academy (the Academy) financial performance provides an overall review of the 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 basic financial statements and the 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 reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, since this is the Academy's first year of operations, only one year of data will be presented.

Financial Highlights

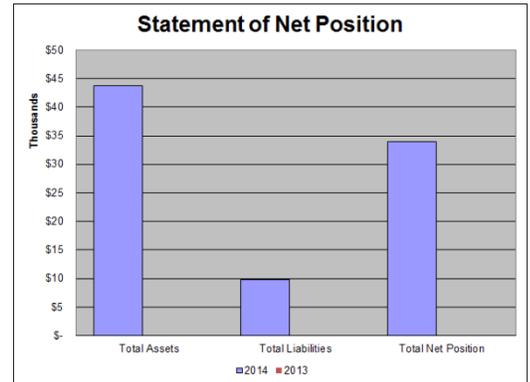
Key financial highlights for fiscal year 2014 are as follows:

- Total net position was \$10,542 at June 30, 2014.
- Total operating and non-operating revenues were \$ 400,964 in fiscal year 2014.
- Total expenses were \$390,422 in fiscal year 2014.
- Current liabilities were \$20,905 at June 30, 2014.
- The Academy has no long term debt outstanding as of June 30 2014.

Using this Financial 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.

The Statement of Net Position and Statement of Revenues, Expenses and Change in Net Position reflect how the Academy did financially during its first year of operations of 2014. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.



These statements report the Academy's Net Position and changes in that net position. This change in Net Position is important because it tells the reader whether 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. Non-financial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

Statement of Net Position

The Statement of Net Position answers the question of how the Academy did financially during fiscal year 2014. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies.

Table 1 provides a summary of the Academy's Net Position for 2014.

(Table 1)
Statement of Net Position

	2014
Assets:	
Current Assets	\$23,107
Non-current Assets	8,340
Total Assets	\$31,447
Liabilities:	
Current Liabilities	\$20,905
Long-Term Liabilities	
Total Liabilities	\$20,905
Net Position:	
Net Investment in Capital Assets	\$8,340
Restricted for Food Service	1,211
Restricted for Grants	3,799
Unrestricted	(2,808)
Total Net Position	\$10,542

Total assets were \$31,447, while total liabilities were \$20,905. Cash and cash equivalents were \$2,160 while intergovernmental receivables were \$20,947.

Statement of Revenues, Expenses and Change in Net Position

Table 2, below, demonstrates the Net Position for fiscal year 2014, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the Academy as a whole, the financial position of Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

(Table 2)
Change in Net Position

	2014
Operating Revenues:	
State Aid	\$344,725
Casino Aid	1,239
Facilities Aid	4,363
Other Operating	817
Non-Operating Revenue:	
Grants	39,760
Contributions & Donations	10,060
Total Revenues	<u>400,964</u>
Operating Expenses:	
Salaries	186,709
Fringe Benefits	38,273
Purchased Services	138,476
Materials and Supplies	20,343
Depreciation	1,660
Other	4,961
Total Expenses	<u>390,422</u>
Change in Net Position	<u>\$10,542</u>

The revenue generated by a community Academy is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 87% of revenues while grants, contributions and donations, and other operating revenues made up the remaining. The Academy's most significant expenses Salaries and Fringe Benefits represent 58% of total expenses which represent payments to employees and payments for employee benefits.

Budgeting Highlights

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

Capital Assets

At the end of fiscal year 2014, the Academy had net capital assets in the amount of \$8,340.

Debt

At June 30 2014, the Academy had no long term debt; however, current liabilities existed in the amount of \$20,905.

Current Financial Related Activities

The Academy is in its first year as Watkins Academy. The financial outlook over the next several years shows continued growth in enrollment, but future revenue increases are cautious due to Ohio's weak economic recovery.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

Contacting Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Brian G. Adams, Fiscal Officer for the Watkins Academy, 65 E. Wilson Bridge Rd Suite 200, Worthington, OH 43085 or e-mail at badams@ocscltd.com.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

Assets:

Current Assets:

Cash and Cash Equivalents	\$2,160
Intergovernmental Receivable	<u>20,947</u>
Total Current Assets	<u>23,107</u>

Non-Current Assets:

Capital Assets, Net	<u>8,340</u>
Total Assets	<u>31,447</u>

Liabilities:

Current Liabilities:

Accounts Payable	9,800
Intergovernmental Payable	<u>11,105</u>
Total Current Liabilities	<u>20,905</u>
Total Liabilities	<u>20,905</u>

Net Position:

Net Investment in Capital Assets	8,340
Restricted for Food Service	1,211
Restricted for Grants	3,799
Unrestricted	<u>(2,808)</u>
Total Net Position	<u>\$10,542</u>

See accompanying notes to the basic financial statements.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

Operating Revenues:	
State Aid	\$344,725
Casino Aid	1,239
Facilities Aid	4,363
Other Operating	817
Total Operating Revenues	<u>351,144</u>
Operating Expenses:	
Salaries	186,709
Fringe Benefits	38,273
Purchased Services	138,476
Materials and Supplies	20,343
Depreciation	1,660
Other	4,961
Total Operating Expenses	<u>390,422</u>
Operating Loss	<u>(39,278)</u>
Non-Operating Revenues:	
Grants	39,760
Donations and Contributions	10,060
Total Non-Operating Revenues	<u>49,820</u>
Change in Net Position	10,542
Net Position, Beginning of Year	<u>0</u>
Net Position, End of Year	<u><u>\$10,542</u></u>

See accompanying notes to the basic financial statements.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
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	\$344,509
Cash Received from Other Operating Sources	817
Cash Payments to Employees for Services	(186,709)
Cash Payments for Employee Benefits	(21,791)
Cash Payments to Suppliers for Goods and Services	(160,131)
Other Cash Payments	(3,370)
Net Cash Used in Operating Activities	(26,675)

Cash Flows from Noncapital Financing Activities:

Cash Received from Grants	28,775
Cash Received from Donations	60
Net Cash Provided by Noncapital Financing Activities	28,835

Net Increase in Cash and Cash Equivalents 2,160

Cash and Cash Equivalents, Beginning of Year 0

Cash and Cash Equivalents, End of Year \$2,160

Reconciliation of Operating Loss to Net Cash

Used in Operating Activities:

Operating Loss (\$39,278)

Adjustments to Reconcile Operating Loss to

Net Cash Used in Operating Activities:

Depreciation 1,660

Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable	(9,962)
Increase in Accounts Payable	9,800
Increase in Intergovernmental Payable	11,105
Net Cash Used in Operating Activities	(\$26,675)

Noncash Transactions:

During fiscal year 2014, the Academy received \$10,000 in donated capital assets. The Academy had outstanding intergovernmental receivables related to non-operating grants of \$10,985 at June 30, 2014.

See accompanying notes to the basic financial statements.

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**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

The Academy was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years from July 1, 2013 through June 30, 2018. The Academy operates under a self-appointing five-member Board of Directors (the Board). The Academy's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility. The facility is staffed with teaching personnel who provide services to 47 students.

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. The more significant of the Academy's accounting policies are described below.

A. Basis of Preparation

The Academy's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Change in Net Position, and a Statement of Cash Flows.

The Academy uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in Net Position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

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 Revenues, Expenses, and Change in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. 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. Revenues resulting from non-exchange transactions, in which the Academy received value without directly giving equal value in return, such as grants, entitlements, and donations are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe for an annual budget requirement. The Academy does prepare a five-year forecast, which is to be updated semi-annually, and submitted to the Board of Directors, Ohio Department of Education, and its' Sponsor.

D. Cash and Cash Equivalents

All cash received by the Academy is maintained in a demand deposit account. The Academy did not have any investments during fiscal year 2014.

E. Capital Assets and Depreciation

For purposes of recording capital assets, the Board has a capitalization threshold of \$1,000.

The capital assets are recorded on the accompanying Statement of Net Position at cost (or fair market value as of the date received for donated capital assets), net of accumulated depreciation of \$8,340. Depreciation is computed by the straight-line method over three years for "Computers and Equipment", and five to twenty years for "Leasehold Improvements".

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the Career Based Intervention (CBI) Program, which are reflected under "State Aid" on the Statement of Revenues, Expenses and Changes in Net Position. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

Eligibility requirements, include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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. Amounts awarded under the above programs (State Aid and Grants) for the 2014 fiscal year totaled \$384,485.

G. 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.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Net Position

Net Position represents the difference between assets and liabilities. Net Position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

I. Use of Estimates

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

3. DEPOSITS

Custodial credit risk is the risk that, in the event of a 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 was \$2,160 and the bank balance was \$5,777. Of the bank balance, all was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure, \$0 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

4. RISK MANAGEMENT

Worker's Compensation – The Academy is responsible for paying the State Workers Compensation System a premium for employee injury coverage.

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description – The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement and disability 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 can be obtained on SERS' website at www.ohsers.org under Employer/ Audit Resources.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

5. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount 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 and Health Care Fund) of the System. For the fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining .90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's required contributions to SERS for the year ended June 30, 2014 was \$13,445 of which 49.45% has been contributed.

B. State Teachers Retirement System

Plan Description – The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 DB Plan and the DC 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

5. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salaries. The Academy was required to contribute 14 percent. For fiscal year 2014, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013 until it reaches 14 percent on July 1, 2016. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2014, was \$19,931 of which 100% has been contributed.

6. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits 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 premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90; SERS' reimbursement for 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 2014, the actuarial required allocation is .76 percent. The Academy's contributions to the Medicare Part B plan for the year ended June 30 2014 was \$730 of which 49.46% has been contributed.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including 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 ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

6. POST-EMPLOYMENT BENEFITS (Continued)

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30 2014, the health care allocation is .14 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year ended June 30 2014, the minimum compensation level was established at \$20,250. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care including surcharge for the year ended June 30, 2014 was \$134 of which 49.46% has been contributed.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' website www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

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

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the year ended June 30 2014. The 14 percent employer contribution rate is the maximum rate established under Ohio law. 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 year ended June 30 2014 was \$1,533 of which 100% has been contributed.

7. CONTINGENCIES

A. Grants

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

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

7. CONTINGENCIES (Continued)

B. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment 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. A review has been conducted for the 2013-2014 school year. As a result of the review, the Academy recorded an intergovernmental receivable in the amount of \$5,818 on the accompanying financial statements.

Additionally, ODE has identified several community schools and/or STEM schools that made critical data errors between the June payment and the Final #1 payment. As a result, ODE will be running a Final #2 foundation report for community and STEM schools for fiscal year 2014. As of the date of this report, a final list of schools impacted and amounts are not yet available, but ODE believes this will result in receivables to the schools affected.

8. FEDERAL TAX STATUS

The Academy began the process of filing for tax exempt status under section 501(c)(3) of the Internal Revenue Code. In the interim, the Academy has begun the process to file IRS Form 990, "Return of Organization Exempt from Income Tax".

9. SPONSORSHIP FEES

The Academy contracts with Ohio Department of Education to be its sponsor effective July 1, 2013. The contract states "...the annual sponsorship fee to be paid to Ohio Department of Education be set at 3 percent of the State's annual School Foundation support..." The Sponsor is to provide oversight, monitoring, and technical assistance for the Academy. Amount paid to Ohio Department of Education for fiscal year 2014 was \$10,167.

10. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2014, follows:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Capital Assets Being Depreciated:				
Leasehold Improvements				
Computers & Equipment		\$10,000		\$10,000
Total Capital Assets Being Depreciated		10,000		10,000
Less Accumulated Depreciation:				
Leasehold Improvements				
Computers & Equipment		(1,660)		(1,660)
Total Accumulated Depreciation		(1,660)		(1,660)
Total Capital Assets Being Depreciated Net	\$0	\$8,340	\$0	\$8,340

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

11. PURCHASED SERVICES

For the period July 1, 2013 through June 30, 2014, purchased service expenses were for the following services:

Professional and Technical Services	\$50,779
Property Services	12,348
Travel Mileage/Meals	1,960
Communications	8,798
Utilities	4,258
Contracted Trade Services	25,391
Transportation	34,942
	<u>\$138,476</u>

12. INTERGOVERNMENTAL RECEIVABLE

At June 30, 2014, the Academy had intergovernmental receivable in the amount of \$20,947. Intergovernmental receivables consist of federal assistance (CCIP) which eligibility requirements have been met (earned) at June 30, 2014, but the cash was not received by year end, the adjustment from the ODE 2013-2014 school year full-time equivalency review, and overpayments to STRS.

13. ACCOUNTS PAYABLE

At June 30, 2014, the Academy had accounts payable totaling \$9,800 due to various vendors during the normal course of conducting operations.

14. OPERATING LEASES – LESSEE DISCLOSURE

The Academy leases building space from Downtown Dayton Holdings, LLC located at 24 N Jefferson Street and entered into an agreement for the period beginning July 22, 2013 and ending September 30, 2015. The Academy's required building lease payment at June 30, 2014 was \$1,000 per month. The Academy also paid an additional monthly amount to Downtown Dayton Holdings, LLC for parking. Total paid for fiscal year 2014 was \$10,180.

15. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2014, the Academy has implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the Academy.



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

Watkins Academy
Montgomery County
24 North Jefferson Street
Dayton, Ohio 45402

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Watkins Academy, Montgomery County, (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 and have issued our report thereon dated May 20, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 a 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. We consider findings 2014-001 and 2014-002 described in the accompanying schedule of findings to be material weaknesses.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-003.

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 20, 2015

**WATKINS ACADEMY
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2014-001

Material Weakness - Financial Statement Errors

The Academy prepared its annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The Academy's fiscal year 2014 financial statements contained the following errors that required adjustment to the financial statements:

- The Academy's final year-end FTE adjustment from the Ohio Department of Education in the amount of \$5,818 was not reported, resulting in an understatement of intergovernmental receivable and operating revenue – state aid. Additionally, intergovernmental receivable and corresponding non-operating revenue – grants was overstated by \$1,230 due to incorrect reporting of the receivable for the Title I program. There were also \$4,144 in STRS overpayments through foundation settlements at year-end that should have been recorded as an intergovernmental receivable and a corresponding decrease to operating expenses - fringe benefits. The net effect of these errors was a total understatement of \$8,732 for intergovernmental receivable.
- The Academy reported \$9,521 in prepaid assets related to the net amount of payroll liabilities due and overpayments made during the fiscal year. It was determined this amount was not properly calculated or supported. The amount was removed from the Academy's Statement of Net Position, and the fringe benefit expense line item was increased by \$9,521.
- The Academy had an outstanding liability of \$6,795 due to the School Employees Retirement System (SERS) and unpaid payroll taxes of \$4,310 at June 30, 2014; however, there was no liability recorded for these items. The total amount of these items was \$11,105. The error resulted in an understatement of intergovernmental payable and fringe benefits expense.
- The Academy incorrectly reported accounts receivable in the amount of \$11,445 for expenditures (mostly debit card transactions and cash withdrawals) made without supporting documentation during the audit period. As the audit was on-going, various supporting documentation was provided. As a result, the entire amount of accounts receivable was adjusted off of the financial statements, and purchased services expenses increased by \$4,233, materials and supplies expenses increased by \$5,622, and other expenses increased by \$1,590.
- The Academy had net position restrictions for food service and grants that were not reported. Restricted for food service was calculated to be \$1,211, and restricted for grants was calculated to be \$3,799. Unrestricted net position was overstated by \$5,010. The Academy did not perform a net position calculation and could not otherwise provide support that there was no restricted net position, as reported on the original financial statements.

Failure to review the Academy's annual financial report and determine that all line items are adequately supported could result in materially misstated financial statements and misleading financial information. This could also result in errors or irregularities that may go undetected.

The Academy should establish and implement procedures to enhance its controls over financial reporting to determine that the financial reporting reflects the activity of the Academy and thereby increases the reliability of the financial statements. Such procedures may include review of the financial statements and related components by a member of management with analytical comparisons for obvious errors and omissions. The Academy should also perform a calculation to determine if any portion of net position is restricted. The Academy should maintain supporting documentation for all financial statement amounts.

Officials' Response:

We did not receive a response from Academy officials regarding this finding.

FINDING NUMBER 2014-002

Material Weakness – Debit Card/Purchasing Procedures

The Academy did not have a formally approved policy governing purchasing procedures, specifically in relation to approval of expenditures, which determines a proper public purpose for the Academy's business, and what documentation should be maintained to support all expenditures. There was no indication that the Academy's Board discussed expenditures or approved expenditures during its regular Board meetings held during fiscal year 2014.

The Academy's Superintendent excessively used a debit card for approximately 75 transactions during fiscal year 2014 totaling \$10,848, and the Academy did not have a formally approved policy regarding debit card usage. There were several debit card expenditures that were of a questionable nature and could possibly be unrelated to the Academy's business. These expenditures included 16 transactions totaling \$4,618 to Wal-Mart; six transactions totaling \$189 to Family Dollar; one transaction in the amount of \$39 to Target; one transaction in the amount of \$129 to FedEx; four transactions totaling \$146 to various gas stations; three transactions totaling \$462 to Rug Doctor; one transaction totaling \$407 to Lowe's Home Improvement; and other transactions at restaurants. Supporting documentation for these debit card transactions were not maintained with the Treasurer. Instead, the Academy's Superintendent attempted to obtain these receipts as a result of the audit. The transactions were also not recorded on the Academy's accounting system until the bank statements were received in the following month.

The failure to maintain, and provide to the Treasurer in a timely manner, adequate supporting documentation for these transactions could result in a loss of accountability over the Academy's finances, making it difficult to identify errors. These errors could go undetected and possibly result in expenditures that are not for a proper public purpose. The Academy recorded a receivable of \$11,445 on its original fiscal year 2014 financial statements to show amounts that were due back to the school due to unsupported expenditures that occurred during fiscal year 2014.

Additionally, the Academy made cash withdrawals totaling \$1,506 during fiscal year 2014. Documentation provided indicated these expenditures were for payments to vendors for various services. Due to the nature of cash and its susceptibility to fraud or theft, public entities should never make cash payments to any vendor.

The Academy should establish and approve formal policies and procedures governing purchases and debit card usage. The policy governing the use of a debit card should include authorized users, acceptable uses, supporting documentation required to be maintained, and a discussion of the consequences if the policy is not followed. Whenever possible, the Academy should follow the normal purchasing process, including issuing actual checks processed through the accounting system for products and services purchased. When situations necessitate the need to use a debit card, the Academy should maintain all supporting documentation and provide it to the Treasurer as soon as possible. The Academy's Board should review and approve a listing of all expenditures at each regular meeting in order to maintain proper oversight over the Academy's expenditures. Additionally, the Academy should never make cash withdrawals to pay vendors.

Failure to establish and approve formal procedures over purchases and debit card usage could result in expenditures issued for improper purposes and/or expenditures that lack appropriate supporting documentation, which could subsequently result in possible future findings for recovery.

Officials' Response:

We did not receive a response from Academy officials regarding this finding.

FINDING NUMBER 2014-003

Noncompliance

Finding for Recovery – Unsupported Expenditures

Ohio Rev. Code Section 149.351(A) states, in part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, **Ohio Attorney General Opinion 82-006** indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005** Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The Academy’s Superintendent, Bobbie Watkins-Tyree, made the following debit card transactions during fiscal year 2014 that could not be supported with underlying supporting documentation:

<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
8/7/2013	Giant #475	\$30.06
8/9/2013	Family Dollar	19.27
8/9/2013	Dominos	38.23
8/19/2013	Shell Oil	36.67
9/4/2013	Shell Oil	40.01
9/10/2013	USPS	18.40
9/10/2013	Walmart	20.19
9/10/2013	McDonalds	13.96
9/24/2013	Greater Dayton	55.00
10/3/2013	Giant Eagle	3.78
10/18/2013	Target	39.55
10/22/2013	Office Depot	6.51
10/22/2013	Family Dollar	35.39
10/22/2013	Family Dollar	41.60
11/4/2013	Staples	10.72
1/15/2014	Kroger	14.25
1/15/2014	Walgreens	21.65
1/16/2014	ARC-OH	13.05
1/27/2014	Ollies Bargain Outlet	27.49
1/27/2014	DTSDBADEAL	28.96
2/10/2014	Subway	10.00
2/10/2014	Subway	10.00
5/12/2014	Subway	7.00
	Total	<u>\$541.74</u>

There was no indication that the Board approved these expenditures. Additionally, there was no documentation to support that the payments were otherwise for a proper public purpose. Without proper supporting documentation, it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The Academy’s failure to maintain adequate support for these expenditures could result in a loss of accountability over the Academy’s finances, make it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

**FINDING NUMBER 2014-003
(Continued)**

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Bobbie Watkins-Tyree and in favor of Watkins Academy, in the amount of \$541.

Officials' Response:

We did not receive a response from Academy officials regarding this finding.



Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

Watkins Academy
Montgomery County
24 North Jefferson Street
Dayton, Ohio 45402

To the Board of Directors:

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

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

1. We inquired with the Board's management regarding the aforementioned policy. They stated they have not yet adopted an anti-harassment policy. The Board should adopt a policy as required by Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

May 20, 2015

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WATKINS 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
JUNE 11, 2015**