



Rea & associates a *brighter* way

Garfield Academy

Stark County, Ohio

Final Audit

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

Board of Directors
Garfield Academy
1379 Garfield Avenue SW
Canton, Ohio 44706

We have reviewed the *Independent Auditor's Report* of the Garfield Academy, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 6, 2017

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**GARFIELD ACADEMY
STARK COUNTY**

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December 27, 2016

To the Board of Directors
Garfield Academy
Stark County, Ohio
1379 Garfield Avenue S.W.
Canton, Ohio 44706

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Garfield Academy, Stark County, Ohio, (the "School") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2016, and the changes in financial position and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the basic financial statements, the School ceased operations on June 30, 2016 based on a vote from their Governing Board and approval by their Sponsor. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, the *Schedule of the School's Proportionate Share of the Net Pension Liability*, and *Schedule of School Contributions* on pages 3-7, 22-23, and 24-25, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Kea & Associates, Inc.

Medina, Ohio

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

The discussion and analysis of the Garfield Academy's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, Net Position increased \$2,481,080, which represents a 100.0 percent increase from 2015. This increase is due to the reporting requirements of GASB 69 relocated to closure of the School.
- Total assets increased \$50,683, which represents a 107.2 percent increase from 2015. This increase was due to an increase in grants funding receivable and cash and cash equivalents.
- Liabilities decreased \$2,198,749, which represents a 95.7 percent decrease from 2015. This decrease was due primarily to the decrease in net pension liability due to the School's closure.
- Deferred outflows of resources decreased \$178,089, which represents a 100.0 percent decrease from 2015. This change is due to the closure of the school.
- Deferred inflows of resources decreased \$410,259, which represents a 100.0 percent decrease from 2015. This change is due to the closure of the school.
- A special item of \$2,432,749 represents the impact related to the closing of the School is presented. Any cash balances remaining after the collection of all receivables and the payment of all liabilities will be returned to the Ohio Department of Education (ODE). ODE will then distribute this balance among the public school districts that had students enrolled in the School. This payment to ODE, any expenditure after the School's closure, and the gain on GASB 68 write-off is included in the special item.

During 2015, the School adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Under the new standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

Using this Financial Report

This report consists of three parts, required supplementary information, the financial statements, and notes to the financial statements. The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Statement of Net Position

The Statement of Net Position answers the question of how well the School performed financially during 2016. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the School's Net Position for fiscal year 2016 and fiscal year 2015.

(Table 1)

Statement of Net Position

	2016	2015
Assets		
Current Assets	\$ 97,966	\$ 47,283
Total Assets	97,966	47,283
Deferred Outflow of Resources		
Pension System	-	178,089
Liabilities		
Current Liabilities	97,966	10,227
Long Term Liabilities	-	2,285,966
Total Liabilities	97,966	2,296,193
Deferred Inflow of Resources		
Pension System	-	410,259
Net Position		
Unrestricted	-	(2,481,080)
Total Net Position	\$ -	\$ (2,481,080)

Total assets increased \$50,683 due to increases in grant funding receivable and cash and cash equivalents from operations. Deferred outflows of resources decreased \$178,089. Liabilities decreased \$2,198,227 due to a decrease in net pension liability due to the closure of the School. Deferred inflows of resources decreased \$410,259. The changes in deferred outflows and inflows were due to the closure of the School. The School operates under a management agreement with BHA Canton, LLC. Under the terms of the management agreement, BHA Canton, LLC is paid a 100% of the School's grant funding that is received (see notes to the financial statements, note 8).

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Statement of Revenues, Expenses, and Changes in Net Position

Table 2 shows the change in Net Position for fiscal year 2016 and 2015, as well as a listing of revenues and expenses.

(Table 2)

Change in Net Position

	2016	2015
Operating Revenue		
State Aid	\$ 1,976,546	\$ 2,039,784
Total Operating Revenue	<u>1,976,546</u>	<u>2,039,784</u>
Non-Operating Revenues		
Grants	461,730	424,743
Miscellaneous	20,224	10,452
Total Revenues	<u>2,458,500</u>	<u>2,474,979</u>
Operating Expenses		
Purchased services: Management fees	1,841,817	1,926,509
Mgmt fee contra - Pensing funding	(157,558)	(156,701)
Purchased services: Grant programs	453,464	424,743
Purchased services: State grant programs	8,266	-
Sponsorship fees	57,079	60,179
Pension	142,620	76,426
Board of education	18,224	11,817
Legal	19,682	13,566
Advertising	-	499
Insurance: D&O Liability	5,690	531
Auditing and accounting	20,598	14,500
Miscellaneous	287	-
Total Operating Expenses	<u>2,410,169</u>	<u>2,372,069</u>
Income before special item	48,331	102,910
Special item	<u>2,432,749</u>	<u>-</u>
Change in Net Position	<u>\$ 2,481,080</u>	<u>\$ 102,910</u>

State aid revenues decreased in 2016 due to a decrease in full-time equivalent (FTE) enrollment. The School's most significant expense, "Purchased services: management fees," also decreased due to the decrease in enrollment. The special item reported was the result of applying GASB 69 as a result of school's closure, see note 14.

**GARFIELD ACADEMY
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Capital Assets

At the end of fiscal year 2016 the School had no capital assets.

Current Financial Issues

Garfield Academy received revenue for 219 students in 2016. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from state aid. Per pupil revenue from state aid for the School averaged \$9,025 in fiscal year 2016. The School receives additional revenues from grant subsidies.

As disclosed in note 14, the school ceased operations effective June 30, 2016.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Fiscal Officer at 3320 West Market Street, Suite 300, Fairlawn, Ohio 44333.

**GARFIELD ACADEMY
STARK COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current assets

Cash and cash equivalents	\$	72,823
Continuing fees receivable		3,958
State aid receivable		6,068
Grant funding receivable		15,117
		15,117

Total assets

97,966

LIABILITIES

Current liabilities

Accounts payable		7,923
State aid payable		4,211
Grant funding payable		15,117
Continuing fees payable		10,032
Closing Accrual		60,683
		60,683

Total current liabilities

97,966

Total liabilities

97,966

NET POSITION

Unrestricted

-

Total net position

\$ -

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

**GARFIELD ACADEMY
STARK COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

OPERATING REVENUES

State basic aid	\$ 1,926,075
Facilities aid	32,853
Casino revenue	17,158
3rd grade reading bonus	460
	<hr/>
Total operating revenues	1,976,546
	<hr/>

OPERATING EXPENSES

Purchased services: Management fees	1,841,817
Mgmt Fee Contra - Pension Expense	(157,558)
Pension	142,620
Purchased services: Grant programs	453,464
Sponsorship fees	57,079
Board of education	18,224
Legal	19,682
Accounting & auditing	20,598
Purchased services: State grant expense	8,266
Miscellaneous	287
Insurance: D&O & liability	5,690
	<hr/>
Total operating expenses	2,410,169
	<hr/>
Operating loss	(433,623)

NON-OPERATING REVENUES

Federal grant income	453,464
State grant income	8,266
Miscellaneous revenue	20,224
	<hr/>
Total non-operating revenues	481,954
	<hr/>

Income before special item	48,331
Special item (see note 14)	2,432,749
	<hr/>
Change in net position	2,481,080
Net position, July 1, 2015	(2,481,080)
	<hr/>
Net position, June 30, 2016	\$ -
	<hr/> <hr/>

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

**GARFIELD ACADEMY
STARK COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from state aid	\$ 1,957,644
Cash payments to suppliers for goods and services	<u>(2,398,051)</u>
Net cash used for operating activities	<u>(440,407)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from grant programs	446,613
Cash received from miscellaneous revenue	<u>20,224</u>
Net cash received from noncapital financing activities	<u>466,837</u>
Net increase in cash and cash equivalents	26,430
Cash and cash equivalents at beginning of year	<u>46,393</u>
Cash and cash equivalents at end of year	<u><u>\$ 72,823</u></u>

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

Operating loss	<u>\$ (433,623)</u>
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Changes in assets, liabilities, and deferred outflows/inflows of resources:	
Continuing fees receivable	(3,068)
State aid receivable	(6,068)
Deferred outflows of resources	(386,628)
Deferred inflows of resources	(125,898)
Net pension liability	487,823
Accounts payable	2,814
State aid payable	4,211
Continuing fees payable	4,913
Grants funding payable	<u>15,117</u>
Total adjustments	<u>(6,784)</u>
Net cash used for operating activities	<u><u>\$ (440,407)</u></u>

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

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The School contracts with BHA Canton, LLC for most of its functions (see note 8).

The School signed a contract with Buckeye Community Hope Foundation (Buckeye) to operate for a period from July 1, 2011 through June 30, 2015 and was renewed through June 30, 2016. The School operates under a self-appointing, five-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by BHA Canton, LLC. The facility is staffed with teaching personnel employed by BHA Canton, LLC, who provide services to 219 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

B. Measurement Focus and Basis of Accounting

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

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(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 School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2016. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. Cash and Cash Equivalents

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

E. Intergovernmental Revenues

The School currently participates in the State Foundation Program, facilities aid, 3rd grade reading bonus and casino tax distributions, which are reflected under "operating revenue" on the Statement of Revenues, Expenses, and Changes in Net Position. Revenues received from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2016 school year totaled \$2,438,276.

F. Capital Assets and Depreciation

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

As of June 30, 2016, the School had no capital assets.

G. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets, deferred outflows of resources, liabilities and deferred inflows of resources 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.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Operating Revenues and Expenses

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

I. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School or the Sponsor and that are either unusual in nature or infrequent in occurrence. For fiscal year 2016, the School is reporting a special item representing activity directly related to the closing of the School. See note 14 for further information.

3. CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year ended June 30, 2016, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

4. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all School deposits was \$72,823. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, none of the School's bank balance of \$72,823 was exposed to custodial risk as discussed below, since all of the bank balance was covered by the Federal Depository Insurance Corporation.

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

B. Investments

As of June 30, 2016, the School had no investments.

5. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants funding receivable" in the amount of \$15,117 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2016.

Under the terms of the management agreement (see note 8), the School has recorded a liability to BHA Canton, LLC in the amount of \$15,117 for 100 percent of any State and Federal monies uncollected or unpaid to BHA Canton, LLC as of June 30, 2016.

6. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2016, the School had no assets.

7. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with BHA Canton, LLC, BHA Canton, LLC has contracted with an insurance company for property and general liability insurance pursuant to the management agreement (see note 8). There were no significant reductions in insurance coverage from the prior year and claims did not exceed coverage over the past three years.

Director and Officer - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and a \$5,000 or \$25,000 deductible, depending on the claim.

8. AGREEMENT WITH BHA CANTON, LLC

Effective March 10, 2011, the School entered into a management agreement (Agreement) with BHA Canton, LLC, which is an educational consulting and management company. The term of the Agreement with BHA Canton, LLC is for 5 years and will renew for two additional, successive five (5) year terms unless one party notifies the other party on or before the February 1st prior to the expiration of the then-current term of its intention to not renew the Agreement.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

8. AGREEMENT WITH BHA CANTON, LLC (continued)

Substantially all functions of the School have been contracted to BHA Canton, LLC. BHA Canton, LLC is responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School is required to pay BHA Canton, LLC a monthly continuing fee of 95 percent of the School's "Qualified Gross Revenues", defined in the Agreement as, all revenues and income received by the School except for charitable contributions and BHA Canton, LLC shall receive 100 percent of any and all grants or funding of any kind generated by BHA Canton, LLC, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any. The continuing fee is paid to BHA Canton, LLC based on the qualified gross revenues.

The School had purchased service expense for the year ended June 30, 2016, to BHA Canton, LLC, of \$2,303,547 of which \$3,958 was a receivable from and \$25,149 was a payable to BHA Canton, LLC at June 30, 2016. BHA Canton, LLC will be responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

9. SPONSORSHIP FEES

Under the sponsor contract with Buckeye, the School pays to Buckeye three percent (3%) of all state funds received each year, in consideration for the time, organization, oversight, fees and costs of the Buckeye. Such fees are paid to the Buckeye monthly. As indicated on the Statement of Revenues, Expenses, and Changes in Net Position, the School incurred \$57,079 in sponsorship fees to Buckeye.

10. MANAGEMENT COMPANY EXPENSES

As of June 30, 2016 (see Note 8), BHA Canton, LLC and its affiliates incurred the following expenses on behalf of the School:

	2016
Expenses	
Direct Expenses:	
Salaries and wages	\$ 857,891
Employees' benefits	215,561
Professional and technical services	670,269
Property services	179,453
Travel	6,636
Communications	62,274
Utilities	48,605
Contract Craft or Trade Services	149,725
Educational supplies & curriculum	31,784
Other supplies	115,780
Depreciation expense	27,569
Other direct costs	9,900
Total Expense (Direct Costs)	2,375,447
Total Allocation (indirect Costs)	327,038
Total expenses	\$ 2,702,485

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

10. MANAGEMENT COMPANY EXPENSES (continued)

Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support, marketing and communications.

11. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

As a result of the implementation of GASB 69, the School shows no net pension liability as of June 30, 2016.

B. Plan Description – School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

B. Plan Description – School Employees Retirement System (SERS) (continued)

The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School's contractually required contribution to SERS was \$37,269 for fiscal year 2016.

C. Plan Description – State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service.

Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

C. Plan Description – State Teachers Retirement System (STRS) (continued)

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member’s defined contribution account or the defined contribution portion of a member’s Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was \$130,054 for fiscal year 2016.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

As a result of the implementation of GASB 69, the School shows no deferred outflows of resources related to pension and no deferred inflows related to pension as of June 30, 2016.

Although deferred outflows of resources, deferred inflows of resources, and net pension liability were eliminated in the implementation of GASB 69, pension expense was computed by recording other changes in those factors during the fiscal year.

Following is information related to the School’s pension expense:

	SERS	STRS	Total
Pension Expense	\$123,534	\$19,086	\$142,620

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

12. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Health Care Plan Description – On behalf of the School, HA Northwest, LLC contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of the 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.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2016, the actuarially required allocation is .74 percent. BHA Canton, LLC's contributions on behalf of the School assigned to health care for the year ending June 30, 2016, 2015, and 2014 was \$276, \$2,688, and \$5,657, respectively.

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

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

12. POSTEMPLOYMENT BENEFITS (continued)

A. School Employee Retirement System (continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2015, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

The School's contributions for health care (including surcharge) for the fiscal year ending June 30, 2016, 2015, and 2014 was \$0, \$0, and \$5,483, respectively.

13. CONTINGENCES

Grants

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

Enrollment FTE

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 and 2016. Foundation funding for the school; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

**GARFIELD ACADEMY
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

14. SPECIAL ITEM – CLOSURE OF GARFIELD ACADEMY

On May 16, 2016, the Garfield Academy Board approved the closure of the School as of June 30, 2016. The decision was made by Buckeye Community Hope Foundation (“Buckeye”) to not renew the sponsorship contract which expired June 30, 2016 and the Ohio Department of Education has denied the Board’s application for sponsorship. All of the parents of Garfield Academy students were informed of this decision in May 2016 and plans were made to transition the students into other appropriate school settings.

The School is reporting a special item representing revenues and costs directly related to the closure. This amount includes the remaining cash balances which will be returned to the Ohio Department of Education (ODE) after the collection of all receivables and payment of all liabilities according to ODE closing procedures. ODE will allocate the remaining balance among all public schools with students enrolled in the School. This amount is included in the closing accrual on the Statement of Net Position. A summary of principal items included as a special item on the Statement of Revenues, Expenses and Changes in Net Position follows:

	<u>Amounts</u>
Gain on GASB 68 writeoff - closure	\$ 2,493,433
Board stipend	(625)
Audit fees	(5,730)
Treasury Services	(10,465)
Excess cash returned to ODE	(43,864)
Total special item	<u>\$ 2,432,749</u>

**GARFIELD ACADEMY
STARK COUNTY**

*Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Three Fiscal Years (1)*

	2015	2014	2013
School's Proportion of the Net Pension Liability	0.008137%	0.011014%	0.011014%
School's Proportionate Share of the Net Pension Liability	\$ -	\$ 557,412	\$ 654,967
School's Covered-Employee Payroll	\$ 348,232	\$ 199,877	\$ 292,262
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	133.32%	278.88%	224.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the School's measurement date which is the prior fiscal year end.

The School closed on June 30, 2016. With the application of GASB 69, a resulting special item was reported to remove the pension liability due the fiscal year end, June 30, 2016.

**GARFIELD ACADEMY
STARK COUNTY**

*Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Three Fiscal Years (1)*

	2015	2014	2013
School's Proportion of the Net Pension Liability	0.008357%	0.007107%	0.007107%
School's Proportionate Share of the Net Pension Liability	\$ -	\$ 1,728,554	\$ 2,059,042
School's Covered-Employee Payroll	\$ 791,471	\$ 791,471	\$ 421,731
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	0.00%	218.40%	488.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the School's measurement date which is the prior fiscal year end. The School closed on June 30, 2016. With the application of GASB 69, a resulting special item was reported to remove the pension liability due the fiscal year end June 30, 2016.

**GARFIELD ACADEMY
STARK COUNTY**

*Required Supplementary Information
Schedule of School Contributions
School Employee Retirement System of Ohio
Last Five Fiscal Years (1)*

	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 37,296	\$ 45,897	\$ 27,703	\$ 40,449	\$ 36,768
Contributions in Relation to the Contractually Required Contribution	(37,296)	(45,897)	(27,703)	(40,449)	(36,768)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
School Covered-Employee Payroll	\$ 266,400	\$ 348,232	\$ 199,877	\$ 292,262	\$ 273,368
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%	13.45%

(1) Information prior to 2012 is not available.

**GARFIELD ACADEMY
STARK COUNTY**

*Required Supplementary Information
Schedule of School Contributions
State Teachers Retirement System of Ohio
Last Five Fiscal Years (1)*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 130,054	\$ 110,806	\$ 86,285	\$ 54,825	\$ 83,684
Contributions in Relation to the Contractually Required Contribution	<u>(130,054)</u>	<u>(110,806)</u>	<u>(86,285)</u>	<u>(54,825)</u>	<u>(83,684)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School Covered-Employee Payroll	\$ 928,957	\$ 791,471	\$ 663,731	\$ 421,731	\$ 643,723
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%	13.00%

(1) Information prior to 2012 is not available.

December 27, 2016

To the Board of Directors
Garfield Academy
Stark County, Ohio
1379 Garfield Avenue S.W.
Canton, Ohio 44706

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Garfield Academy, Stark County, Ohio (the "School") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 27, 2016, in which we noted the School ceased operations June 30, 2016.

Internal Control over Financial Reporting

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

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

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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Medina, Ohio



Dave Yost • Auditor of State

GARFIELD ACADEMY

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 16, 2017**