



Dave Yost • Auditor of State



**GLASS CITY ACADEMY  
LUCAS COUNTY  
JUNE 30, 2016**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position .....	8
Statement of Revenues, Expenses and Changes in Net Position .....	9
Statement of Cash Flows.....	10
Notes to the Basic Financial Statements .....	11
Supplemental Information:	
Schedules of Required Supplementary Information .....	31
Notes to Required Supplementary Information .....	37
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	39





# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Glass City Academy  
Lucas County  
1000 Monroe Street  
Toledo, Ohio 43604

To the Governing Board:

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

We have audited the accompanying financial statements of Glass City Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2016, 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 respective financial position of Glass City Academy, Lucas County, Ohio, as of June 30, 2016, and the

respective changes in financial position and 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*, and schedules of net pension liabilities and pension contributions 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 March 3, 2017, 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

March 3, 2017

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

The management's discussion and analysis of Glass City Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2016. 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.

**Financial Highlights**

Key financial highlights for 2016 are as follows:

- In total, net position was a deficit of \$77,580 at June 30, 2016.
- The Academy had operating revenues of \$1,663,690 and operating expenses of \$1,587,848 for fiscal year 2016. The Academy had \$147,069 in nonoperating revenues and expenses for fiscal year 2016. The total change in net position for the fiscal year was an increase of \$222,911.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

**Reporting the Academy Financial Activities**

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2016?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report as presents certain required supplementary information concerning the Academy's net pension liability.

The table below provides a summary of the Academy's net position for fiscal years 2016 and 2015.

**Net Position**

	<u>2016</u>	<u>2015</u>
<b><u>Assets</u></b>		
Current assets	\$ 2,123,199	\$ 1,914,311
Capital assets, net	<u>14,171</u>	<u>2,446</u>
Total assets	<u>2,137,370</u>	<u>1,916,757</u>
<b><u>Deferred outflows of resources</u></b>		
Pension	<u>199,613</u>	<u>141,746</u>
<b><u>Liabilities</u></b>		
Current liabilities	102,241	95,326
Non-current liabilities:		
Due within one year	1,581	2,718
Due in more than than one year	6,836	-
Net pension liability	<u>2,129,336</u>	<u>1,917,065</u>
Total liabilities	<u>2,239,994</u>	<u>2,015,109</u>
<b><u>Deferred inflows of resources</u></b>		
Pension	<u>174,569</u>	<u>343,885</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	5,754	(272)
Unrestricted (deficit)	<u>(83,334)</u>	<u>(300,219)</u>
Total net position (deficit)	<u>\$ (77,580)</u>	<u>\$ (300,491)</u>

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Academy's net position totaled a deficit of \$77,580. The overall increase of \$222,911 in net position is partially due to an increase of \$177,335 in cash and cash equivalents. The increase in cash and cash equivalents was the result of the Academy receiving aid from the State.

During 2015, the Academy 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 District'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.

Under the new standards required by GASB 68, the net pension liability equals the Academy'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 Academy 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.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

In accordance with GASB 68, the District'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.

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

The table below shows the changes in net position for fiscal years 2016 and 2015.

	2016	2015
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 1,463,310	\$ 1,461,995
Special education	197,908	219,001
Other operating revenue	2,472	2,520
Total operating revenue	1,663,690	1,683,516
<b><u>Operating Expenses:</u></b>		
Salaries and wages	863,229	880,907
Fringe benefits	265,635	239,874
Purchased services	389,547	349,351
Materials and supplies	52,623	49,160
Depreciation	2,019	4,809
Other	14,795	59,800
Total operating expenses	1,587,848	1,583,901
<b><u>Non-operating revenues (expenses):</u></b>		
Federal and State grants	102,804	101,277
Interest income	2,011	1,759
Gain on disposal of assets	42,335	-
Interest and fiscal charges	(81)	(238)
Total non-operating revenues	147,069	102,798
Change in net position	222,911	202,413
Net position (deficit) at beginning of year	(300,491)	(502,904)
Net position (deficit) at end of year	\$ (77,580)	\$ (300,491)

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation basic aid. State foundation basic aid and special education attributed to 91.74% of total operating and non-operating revenues during fiscal year 2016. Salaries and fringe benefits comprise 71.09% of operating expenses.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)**

**Capital Assets and Debt Administration**

At June 30, 2016, the Academy's net investment in capital assets was \$5,754. The Academy had \$14,171 in capital assets, net of depreciation. See Note 5 in the notes to the basic financial statements for more detail on capital assets.

At June 30, 2016, the Academy's long-term obligations consisted of a capital lease obligation of \$8,417. For further information regarding the Academy's long-term obligations, refer to Notes 6 and 10 to the basic financial statements.

**Current Financial Related Activities**

The utilization of Charter School Specialists as the Academy's fiscal agent greatly improves the internal control structure and quality of its financial records. During the 2015-2016 school year, there were approximately 209 students enrolled in the Academy.

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

**Contacting the Academy's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Dan Lamb, Treasurer at Glass City Academy, 40 Hill Road South, Pickerington, Ohio 43147 or email at [dlamb@charterschoolspec.com](mailto:dlamb@charterschoolspec.com).

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2016

<b>Assets:</b>	
Current assets:	
Cash with cash equivalents. . . . .	\$ 1,967,239
Receivables:	
Intergovernmental. . . . .	135,418
Prepayments . . . . .	2,542
Security deposit. . . . .	18,000
Total current assets . . . . .	2,123,199
Non-current assets:	
Depreciable capital assets, net . . . . .	14,171
Total assets. . . . .	2,137,370
 <b>Deferred outflows of resources:</b>	
Pension - STRS. . . . .	153,668
Pension - SERS. . . . .	45,945
Total deferred outflows of resources . . . . .	199,613
 <b>Liabilities:</b>	
Current liabilities:	
Accounts payable. . . . .	3,731
Accrued wages and benefits . . . . .	90,653
Pension obligation payable. . . . .	6,778
Intergovernmental payable . . . . .	1,079
Total current liabilities . . . . .	102,241
Non-current liabilities:	
Due within one year. . . . .	1,581
Other amounts due in more than one year. . . . .	6,836
Pension liability. . . . .	2,129,336
Total non-current liabilities . . . . .	2,137,753
Total liabilities . . . . .	2,239,994
 <b>Deferred inflows of resources:</b>	
Pension - STRS. . . . .	155,489
Pension - SERS. . . . .	19,080
Total deferred inflows of resources . . . . .	174,569
 <b>Net position:</b>	
Investment in capital assets. . . . .	5,754
Unrestricted (deficit). . . . .	(83,334)
Total net position. . . . .	\$ (77,580)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<b>Operating revenues:</b>	
Foundation revenue . . . . .	\$ 1,463,310
Special education. . . . .	197,908
Sales/charges for services. . . . .	1,916
Other operating revenue. . . . .	556
Total operating revenues . . . . .	<u>1,663,690</u>
<b>Operating expenses:</b>	
Salaries and wages. . . . .	863,229
Fringe benefits. . . . .	265,635
Purchased services. . . . .	389,547
Materials and supplies . . . . .	52,623
Depreciation . . . . .	2,019
Other. . . . .	14,795
Total operating expenses. . . . .	<u>1,587,848</u>
Operating income. . . . .	<u>75,842</u>
<b>Non-operating revenues (expenses):</b>	
Federal and state grants. . . . .	102,804
Interest revenue . . . . .	2,011
Gain on disposal of capital assets . . . . .	42,335
Interest and fiscal charges . . . . .	(81)
Total nonoperating revenues (expenses) . . . . .	<u>147,069</u>
Change in net position . . . . .	222,911
<b>Net position (deficit) at beginning of year. . . . .</b>	<u>(300,491)</u>
<b>Net position (deficit) at end of year . . . . .</b>	<u>\$ (77,580)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<b>Cash flows from operating activities:</b>	
Cash received from state foundation . . . . .	\$ 1,616,494
Cash received from sales/charges for services . . . . .	1,916
Cash received from other operations . . . . .	556
Cash payments for salaries and wages. . . . .	(854,487)
Cash payments for fringe benefits . . . . .	(283,822)
Cash payments for contractual services . . . . .	(375,116)
Cash payments for materials and supplies . . . . .	(52,435)
Cash payments for other expenses . . . . .	(14,795)
	38,311
<b>Cash flows from noncapital financing activities:</b>	
Cash received from grants and subsidies. . . . .	102,804
	102,804
<b>Cash flows from capital and related financing activities:</b>	
Gain on sale of capital assets. . . . .	44,076
Interest and fiscal charges . . . . .	(81)
Principal retirement on capital lease . . . . .	(2,847)
Acquisition of capital assets . . . . .	(6,939)
	(6,939)
Net cash used in capital and related financing activities. . . . .	34,209
	34,209
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	2,011
	2,011
Net increase in cash and cash cash equivalents . . . . .	177,335
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>1,789,904</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$ 1,967,239</b>
	1,967,239
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income. . . . .	\$ 75,842
Adjustments:	
Depreciation . . . . .	2,019
Changes in assets and liabilities:	
(Increase) in intergovernmental receivable . . . . .	(44,724)
Decrease in prepayments . . . . .	13,171
Decrease in accounts payable. . . . .	2,619
Increase in accrued wages and benefits. . . . .	13,314
(Decrease) in intergovernmental payable. . . . .	(5,086)
(Decrease) in pension obligation payable. . . . .	(3,932)
(Decrease) in long-term pension deferred inflows and outflows . . . . .	(227,183)
Increase in net pension liability . . . . .	212,271
	212,271
Net cash provided by operating activities. . . . .	\$ 38,311
	38,311

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 1 - DESCRIPTION OF THE ACADEMY**

Glass City Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s tax-exempt status. The Academy’s mission is to provide a second chance for dropout and highly at-risk youth to complete high school, learn readily marketable work skills and explore post-secondary training options. The underlying philosophy of the Academy is that all students have a right to a challenging high school education with a focus on the future, provided in a manner that addresses individual academic, social and behavioral needs. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Educational Service Center of Lake Erie West (the “Sponsor”) for a period of five years commencing September 8, 2004. The Academy renewed the contract with the Sponsor through June 30, 2016. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Governing Board controls the Academy’s one instructional/support facility staffed by 12 non-certified and 15 certified full-time teaching personnel who provide services to 209 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. 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 Presentation**

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

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**B. Measurement Focus**

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

**C. Basis of Accounting**

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

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

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

The Academy is required to submit a five-year budget forecast with the Ohio Department of Education, c/o Superintendent of Public Instruction.

**E. Cash**

The Academy's fiscal agent, Charter School Specialists, LLC, accounts for all monies received by the Academy. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for presentation on the statement of net position, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

At June 30, 2016, the Academy did not have any investments.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**F. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Basic Aid. Revenues received from State Foundation Basic Aid are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**H. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$2,000. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5 years

**I. Net Position**

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**J. Operating Revenues and Expenses**

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

**K. Estimates**

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

**L. Security Deposit**

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$18,000, is held by the lessor and may be used towards the last two months of rent or towards the purchase price of the property, if the Academy exercises its option to purchase (See Note 13).

**M. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2016, the Academy has implemented 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 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Academy.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Academy.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES – (Continued)**

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement 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 Academy.

GASB Statement No. 79 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 Academy.

**NOTE 4 - DEPOSITS**

At June 30, 2016, the carrying amount of all Academy deposits was \$1,967,239. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$1,487,653 of the Academy's bank balance of \$1,987,653 was exposed to custodial risk as discussed below, while \$500,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

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

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

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance 06/30/15	Additions	Deductions	Balance 06/30/16
Capital Assets Being Depreciated:				
Furniture, Fixtures and Equipment	\$ 170,144	\$ 15,485	\$ (95,423)	\$ 90,206
Total Capital Assets Being Depreciated	<u>170,144</u>	<u>15,485</u>	<u>(95,423)</u>	<u>90,206</u>
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	<u>(167,698)</u>	<u>(2,019)</u>	<u>93,682</u>	<u>(76,035)</u>
Total Accumulated Depreciation	<u>(167,698)</u>	<u>(2,019)</u>	<u>93,682</u>	<u>(76,035)</u>
Capital Assets, Net	<u>\$ 2,446</u>	<u>\$ 13,466</u>	<u>\$ (1,741)</u>	<u>\$ 14,171</u>

**NOTE 6 - CAPITALIZED LEASE - LESSEE DISCLOSURES**

The Academy entered into capital lease agreements in the current year and in fiscal year 2012. The leases both meet the criteria of a capital lease. The capital leases are recorded at the present value of the future minimum lease payments as of the inception date. Principal payments made during fiscal year 2016 totaled \$2,847.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2016:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 1,889
2018	1,889
2019	1,888
2020	1,889
2021	<u>1,731</u>
Total minimum lease payments	9,286
Less: amount representing interest	<u>(869)</u>
Total	<u>\$ 8,417</u>

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 7 - RISK MANAGEMENT**

**A. Insurance Coverage**

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the Academy contracted with the Cincinnati Insurance Company for general liability, property and director and officer errors and omissions insurance.

Coverage is as follows:

Commercial General Liability per occurrence	\$1,000,000
Commercial General Liability aggregate	3,000,000
Damage to Rented Premises	500,000
Personal and Advertising Injury Liability	1,000,000
Products - Completed/Operations aggregate	3,000,000

The Academy owns no property, but leases a facility located at 1000 Monroe Street, Toledo, Ohio (See Note 13).

Settled claims have not exceeded commercial coverage in the past three years and there have been no significant reductions in insurance coverage from fiscal year 2015.

**B. Workers' Compensation**

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

**C. Employee Benefits**

The Academy provides medical, dental, and vision insurance to its full-time employees who work a minimum of 30 hours weekly.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 8- DEFINED BENEFIT PENSION PLANS**

*Net Pension Liability*

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Academy’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Academy’s obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in pension benefits payable.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description –Academy 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](http://www.ohsers.org) under Employers/Audit Resources.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire 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 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 statutory maximum amounts of 10 percent for plan members and 14 percent for employers. 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 entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$37,333 for fiscal year 2016.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description –Academy 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](http://www.strsoh.org).

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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.

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, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The Academy's contractually required contribution to STRS was \$80,647 for fiscal year 2016.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 533,549	\$ 1,595,787	\$ 2,129,336
Proportion of the net pension liability	0.00935050%	0.00577408%	
Pension expense	\$ 35,585	\$ 63,516	\$ 99,101

At June 30, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 8,612	\$ 73,021	\$ 81,633
District contributions subsequent to the measurement date	<u>37,333</u>	<u>80,647</u>	<u>117,980</u>
Total deferred outflows of resources	<u>\$ 45,945</u>	<u>\$ 153,668</u>	<u>\$ 199,613</u>
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 17,872	\$ 120,011	\$ 137,883
Changes in proportionate share	<u>1,208</u>	<u>35,478</u>	<u>36,686</u>
Total deferred inflows of resources	<u>\$ 19,080</u>	<u>\$ 155,489</u>	<u>\$ 174,569</u>

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

\$123,589 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2017	\$ (6,877)	\$ (35,019)	\$ (41,896)
2018	(6,877)	(35,019)	(41,896)
2019	(6,876)	(35,019)	(41,895)
2020	10,162	26,556	36,718
Total	\$ (10,468)	\$ (78,501)	\$ (88,969)

***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Changes Between Measurement Date and Report Date** In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact of the Academy's net pension liability is expected to be significant.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

*Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease █ (6.75%)	Discount Rate █ (7.75%)	1% Increase █ (8.75%)
District's proportionate share of the net pension liability	\$ 739,840	\$ 533,549	\$ 359,834

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease █ (6.75%)	Discount Rate █ (7.75%)	1% Increase █ (8.75%)
District's proportionate share of the net pension liability	\$ 2,216,668	\$ 1,595,787	\$ 1,070,739

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Health Care Plan Description - The Academy 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](http://www.ohsers.org) under Employers/Audit Resources.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 9 - POSTEMPLOYMENT BENEFITS – (Continued)**

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 a health care premium that varies depending on the plan selected, 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, none of the employer contribution was allocated to health care. 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 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 fiscal year 2016, the Academy's surcharge obligation was \$3,699.

The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$2,799, \$5,901, and \$3,788, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**B. State Teachers Retirement System**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$6,009, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 10 - LONG TERM OBLIGATIONS**

The Academy's long term obligations activity for the fiscal year ended June 30, 2015, was as follows:

	Balance Outstanding <u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/16</u>	Amounts Due in <u>One Year</u>
Net pension liability	\$ 1,917,065	\$ 212,271	\$ -	\$ 2,129,336	\$ -
Capital leases payable	<u>2,718</u>	<u>8,546</u>	<u>(2,847)</u>	<u>8,417</u>	<u>1,581</u>
Total	<u>\$ 1,919,783</u>	<u>\$ 220,817</u>	<u>\$ (2,847)</u>	<u>\$ 2,137,753</u>	<u>\$ 1,581</u>

*Capital Lease Obligation* - See Note 6 for details.

*Net Pension Liability* - See Note 8 for details.

**NOTE 11 - FISCAL SERVICES AND SPONSORSHIP CONTRACT**

The Academy entered into a service contract with Charter School Specialists, LLC ("CSS") to provide fiscal services. As part of this agreement, the Academy shall compensate CSS \$2,750 per month. The Academy paid CSS \$33,000 in service fees for fiscal year 2016.

As part of the Sponsorship contract, the Academy shall compensate the Educational Service Center of Lake Erie West 2% of the State Foundation, Local, State and Federal Funds except for the Cleveland Clinic and Rotary Funds. A total contract payment of \$36,210 was paid during the fiscal year. This contract ended June 30, 2016.

**NOTE 12 - PURCHASED SERVICES**

For the year ended June 30, 2016, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 144,924
Property Services	179,778
Travel Mileage/Meeting Expense	216
Communications	11,916
Utilities	50,787
Other	<u>1,926</u>
Total Purchased Services	<u>\$ 389,547</u>

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

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

**NOTE 13 - OPERATING LEASES**

The Academy entered into an amended lease agreement with T&E Properties, LTD., for the period July 1, 2011 through June 30, 2014 with monthly installment payments of \$11,000 for fiscal year 2012, \$11,500 for fiscal year 2013 and \$12,000 for fiscal year 2014. The cost of the lease during this initial period will be monthly installment payments of \$11,000. Lease payments to the lessor totaled \$144,000. The Academy has the option to renew the lease for 3 years, a total of two times. This lease was renewed in fiscal year 2015 for an additional three year period. The lease also provides the Academy the option to purchase the property at any time during the time of the lease.

**NOTE 14 - CONTINGENCIES**

**A. Litigation**

There are currently no matters in litigation with the Academy as defendant.

**B. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The Academy is due \$135,418 for the fiscal year ended June 30, 2016, as a result of the enrollment review. This amount is recorded as "due from other governments" on the statement of net position.

REQUIRED SUPPLEMENTARY INFORMATION

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**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.00935050%	0.00938200%	0.00938200%
Academy's proportionate share of the net pension liability	\$ 533,549	\$ 474,818	\$ 557,917
Academy's covered-employee payroll	\$ 299,006	\$ 275,382	\$ 257,905
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	178.44%	172.42%	216.33%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.00577408%	0.00592945%	0.00592945%
Academy's proportionate share of the net pension liability	\$ 1,595,787	\$ 1,442,247	\$ 1,717,996
Academy's covered-employee payroll	\$ 602,936	\$ 652,431	\$ 618,085
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.67%	221.06%	277.95%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 37,333	\$ 39,409	\$ 38,168	\$ 35,694
Contributions in relation to the contractually required contribution	<u>(37,333)</u>	<u>(39,409)</u>	<u>(38,168)</u>	<u>(35,694)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 266,664	\$ 299,006	\$ 275,382	\$ 257,905
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 19,432	\$ 31,405	\$ 21,600	\$ 9,679	\$ 9,461	\$ 12,629
<u>(19,432)</u>	<u>(31,405)</u>	<u>(21,600)</u>	<u>(9,679)</u>	<u>(9,461)</u>	<u>(12,629)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 144,476	\$ 249,841	\$ 159,527	\$ 98,364	\$ 96,344	\$ 118,249
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 80,647	\$ 84,411	\$ 84,816	\$ 80,351
Contributions in relation to the contractually required contribution	<u>(80,647)</u>	<u>(84,411)</u>	<u>(84,816)</u>	<u>(80,351)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 576,050	\$ 602,936	\$ 652,431	\$ 618,085
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 62,578	\$ 66,180	\$ 71,332	\$ 69,399	\$ 61,155	\$ 59,018
<u>(62,578)</u>	<u>(66,180)</u>	<u>(71,332)</u>	<u>(69,399)</u>	<u>(61,155)</u>	<u>(59,018)</u>
<u>\$ -</u>					
\$ 481,369	\$ 509,077	\$ 548,708	\$ 533,838	\$ 470,423	\$ 453,985
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**GLASS CITY ACADEMY  
LUCAS COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

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# Dave Yost • Auditor of State

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

Glass City Academy  
Lucas County  
1000 Monroe Street  
Toledo, Ohio 43604

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Glass City Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 3, 2017.

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

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

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

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

### ***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 3, 2017



# Dave Yost • Auditor of State

**GLASS CITY ACADEMY**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 16, 2017**