



Dave Yost • Auditor of State

REACH ACADEMY
LUCAS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

REACH Academy
Lucas County
2125 University Park Drive
Okemos, Michigan 48864

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of REACH 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 REACH 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 May 9, 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

May 9, 2017

**REACH ACADEMY
LUCAS COUNTY**

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

The management's discussion and analysis of REACH Academy's 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 review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

In 2016,

- Total net position was (\$1,705,276).
- Total assets were \$338,029.
- Deferred outflows of resources were \$316,991.
- Total liabilities were \$2,360,296.

Using this Annual Report

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

Statement of Net Position

The statement of net position and statement of revenues, expenses, and changes in net position answer the question, "How did we do financially during 2016?" These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into the account all revenues and expenses during the year, regardless of when cash is received or paid.

**REACH ACADEMY
LUCAS COUNTY**

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

Table I provides a summary of the Academy's net position for fiscal year 2016:

TABLE 1	2016	2015
Assets		
Current assets	\$ 313,953	\$ 232,163
Capital assets - net	24,076	33,942
Total assets	<u>338,029</u>	<u>266,105</u>
Deferred Outflows of Resources		
Pension	<u>316,991</u>	<u>117,607</u>
Liabilities		
Current liabilities	260,320	210,927
Noncurrent liabilities		
Due in more than one year		40,871
Net pension liability	<u>2,099,976</u>	<u>-</u>
Total noncurrent liabilities	<u>2,099,976</u>	<u>40,871</u>
Total liabilities	<u>2,360,296</u>	<u>251,798</u>
Net Position		
Invested in capital assets—net of related debt	24,076	33,942
Unrestricted (Deficit)	<u>(1,729,352)</u>	<u>97,972</u>
Total net position (Deficit)	<u><u>\$(1,705,276)</u></u>	<u><u>\$ 131,914</u></u>

Total net position of the Academy was \$(1,705,276). Intergovernmental Receivables decreased \$39,731 primarily due to reduction in uncollected federal funds. Contracts Payable decreased \$17,921 primarily due to collection of retirement costs advanced by the management company early in the Academy's first year of operation. Accrued Wages and Benefits increased \$21,055 due to increased staffing costs.

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 Academy'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 earning 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.

**REACH ACADEMY
LUCAS COUNTY**

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

Under the 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 the 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 this 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.

In accordance with GASB 68, the Academy'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.

Because of the difficulty of obtaining reporting year data to record net pension liability on a timely basis, the Academy will be using a measurement date of June 30 of the year prior to the current reporting year. Because 2015 was the Academy's first year of operation, the Academy's initial recording of net pension liability will be in fiscal year 2016.

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred outflows of resources related to pension on the accrual basis of accounting. The Academy did not report deferred inflows of resources in fiscal year 2016, but anticipates doing so in the future. For more on net pension liability, deferred outflows and deferred inflows, see note 8.

**REACH ACADEMY
LUCAS COUNTY**

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

Change in Net Position

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

TABLE 2	2016	2015
Operating Revenues		
Foundation payments	\$ 1,774,808	\$ 1,990,230
Other revenues	32,714	7,668
Total operating revenues	1,807,522	1,997,898
Operating Expenses		
Purchased services	4,182,299	2,165,348
Materials and supplies	101,422	69,426
Depreciation (unallocated)	9,866	5,853
Other expenses	29,987	27,826
Total operating expenses	4,323,574	2,268,453
Operating loss	(2,516,052)	(270,555)
Non-Operating Revenues and Expenses		
Federal grants	508,405	250,010
State grants	171,813	145,893
Other non-operating expenses	(123)	-
Contributions and donations		9,356
Interest and fiscal charges		(2,790)
Special assessments	(1,233)	
Total non-operating revenues and expenses	678,862	402,469
Change in net position	(1,837,190)	131,914
Net position beginning of year	131,914	-
Net position end of year (Deficit)	\$ (1,705,276)	\$ 131,914

Net position decreased \$1,837,190. Materials and supplies increased \$31,996 due to increased availability of federal funding. Purchased services increased \$2,016,951 almost entirely due to pension related expenses. Other Revenues increased \$25,046 due to anticipated eRate rebates.

**REACH ACADEMY
LUCAS COUNTY**

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

Capital Assets

At the end of fiscal year 2016, the Academy had \$24,076 invested in capital assets (net of depreciation). Table 3 shows capital assets (net of depreciation) for fiscal years 2016 and 2015.

TABLE 3	2016	2015
Leasehold improvements	\$ 9,941	\$ 12,432
Furniture, fixtures and equipment	14,135	21,510
Total capital assets	\$ 24,076	\$ 33,942

For more information on capital assets, see Note 6 to the basic financial statements.

Current Financial Issues

REACH Academy was formed in 2014 under a contract with the Buckeye Community Hope Foundation. During the 2015-2016 school year there were 245 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2016 amounted to \$1,774,808.

Contacting the Academy's Financial Management

The financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact Melinda Benkovsky, Director of Budget and Finance, 2125 University Park Drive, Okemos, MI 48864 or e-mail at melinda.benkovsky@leonagroup.com.

**REACH ACADEMY
LUCAS COUNTY**

STATEMENT OF NET POSITION
JUNE 30, 2016

Assets

Current Assets:

Cash and cash equivalents	\$	162,184
Accounts receivables		21,504
Intergovernmental receivables		117,205
Prepaid items		13,060
Total Current Assets		313,953

Non-Current Assets:

Depreciable capital assets, net		24,076
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Total Assets

338,029

Deferred Outflows of Resources

Pension		316,991
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Liabilities

Current Liabilities:

Accounts payable	35,554
Accrued wages payable	153,947
STRS-SERS payable	970
Contracts payable	19,899
Intergovernmental payable	49,950
Total Current Liabilities	260,320

Non-Current Liabilities:

Net pension liability	2,099,976
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Total Liabilities

2,360,296

Net Position

Invested in capital assets, net of related debt	24,076
Unrestricted	(1,729,352)

Total Net Position

\$ (1,705,276)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REACH ACADEMY
LUCAS COUNTY**

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

Operating Revenues	
Foundation payments	\$ 1,774,808
Other revenues	32,714
	<hr/>
Total Operating Revenues	1,807,522
	<hr/>
Operating Expenses	
Purchased services	4,182,299
Materials and supplies	101,422
Depreciation	9,866
Other	29,987
	<hr/>
Total Operating Expenses	4,323,574
	<hr/>
Operating Loss	(2,516,052)
	<hr/>
Non-Operating Revenues and Expenses	
Federal grants	508,405
State grants	171,813
Other non-operating expenses	(123)
Special assessments	(1,233)
	<hr/>
Total Non-Operating Revenues and Expenses	678,862
	<hr/>
Change in Net Position	(1,837,190)
	<hr/>
Net Position Beginning of Year	131,914
	<hr/>
Net Position End of Year	\$ (1,705,276)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REACH ACADEMY
LUCAS COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash received from State of Ohio	\$ 1,749,587
Cash received from other operating revenues	12,064
Cash payments to suppliers for goods and services	<u>(2,361,941)</u>

Net Cash Used for Operating Activities (600,290)

Cash Flows from Noncapital Financing Activities:

Federal grants received	550,095
State grants received	174,114
Other non-operating expenses	(98)
Special assessments	<u>(579)</u>

Net Cash Provided by Noncapital Financing Activities 723,532

Cash Flows from Capital and Related Financing Activities:

Payments for capital acquisitions	<u>(10,056)</u>
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Net Increase in Cash and Cash Equivalents 113,186

Cash and Cash Equivalents at Beginning of Year 48,998

Cash and Cash Equivalents at End of Year \$ 162,184

(Continued)

**REACH ACADEMY
LUCAS COUNTY**

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

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

Operating loss \$ (2,516,052)

**Adjustments to Reconcile Operating Loss to
Net Cash Used by Operating Activities**

Depreciation	9,866
Changes in assets and liabilities:	
Increase in accounts receivable	(21,504)
Increase in intergovernmental receivable	(6,924)
Decrease in prepaid items	13,169
Increase in deferred outflows	(199,384)
Increase in accounts payable	31,430
Decrease in contracts payable	(17,921)
Increase in accrued wages and benefits	21,055
Decrease in intergovernmental payable	(14,943)
Increase in STRS-SERS payable	942
Increase in net pension liability	2,099,976

Total Adjustments 1,915,762

Net Cash Used by Operating Activities \$ (600,290)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REACH ACADEMY
LUCAS COUNTY**

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

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

REACH Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is for students to achieve their fullest potential through effective instruction, high standards and expectations, and learning personal responsibility and accountability for their actions. We believe that our school, families, and community are partners in education and share the collective responsibility of educating today's youth for tomorrow's challenges. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy is sponsored under a contract with the Buckeye Community Hope Foundation (the Sponsor) for an initial one-year term commencing July 1, 2014, and a subsequent four-year term commencing July 1, 2015. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. For 2016, the Academy paid \$56,727 to the Sponsor.

The Academy operates under the direction of a five member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's instructional/support facility staffed by nineteen non-certificated personnel and eighteen certificated teaching personnel who provide services to 245 students.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**REACH ACADEMY
LUCAS COUNTY**

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

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

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy 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.

The Academy implemented a revised capitalization policy effective with the fiscal year ended June 30, 2016. Details can be found in Note 3.

**REACH ACADEMY
LUCAS COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Operating Revenues and Expenses

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

G. Estimates

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

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources consist of pension. The deferred outflows of resources related to pension are reported on the statement of net position.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. The Academy did not have any deferred inflow activity in fiscal year 2016 but anticipates such activity going forward.

I. Pension

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.

3. CHANGE IN ACCOUNTING ESTIMATE – CAPITALIZATION THRESHOLDS

On May 7, 2015, and beginning with the fiscal year ended June 30, 2016, the Board of Directors approved a policy to increase the cost threshold for capitalizing most fixed assets. This was done in order to more closely conform to Federal recommendations. Cost thresholds and useful lives by asset type are as follows:

**REACH ACADEMY
LUCAS COUNTY**

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

<u>Asset type</u>	<u>Thresholds</u>	<u>Useful life</u>
Computer/EDP Equipment	Individual item - \$5,000 Aggregate of like items on a single purchase order - \$12,500	3 years
Office/Non-EDP Equipment	Individual item - \$5,000 Aggregate of like items on a single purchase order - \$12,500	6 years
Furniture (includes carpet and other shorter-lived improvements in owned buildings)	Individual item - \$5,000 Aggregate of like items on a single purchase order - \$12,500	7 years
Vehicles	Any new; professional judgement for pre-owned	8 years for new; professional judgement for pre-owned
Software	\$10,000	3 years
Educational media and textbooks	\$5,000	5 years
Land and inexhaustible land improvements	\$5,000	Not depreciable
Owned buildings	No lower limit	39 years
Modular buildings	Any new; professional judgement for pre-owned	15 years for new; professional judgement for pre-owned
Improvements to owned buildings that significantly add to value	Subject to professional judgement but not less than \$25,000	Concurrent with building's remaining useful life
Depreciable site improvements to owned property	Subject to professional judgement but not less than \$25,000	15 years
Leasehold improvements including building and site (includes floor coverings and other short-lived fixtures)	Subject to professional judgement but not less than \$25,000	For the life of the lease. Useful life may be adjusted upon lease renewal subject to professional judgement.

4. DEPOSITS

At June 30, 2016, the carrying amount of all Academy deposits was \$162,184. As of June 30, 2016, the Academy's bank balance of \$175,033 was not exposed to custodial risk as discussed below, and all funds were covered by the Federal Deposit Insurance Corporation (the "FDIC").

**REACH ACADEMY
LUCAS COUNTY**

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

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.

5. RECEIVABLES

Receivables at June 30, 2016, consisted mostly of intergovernmental grants, refunds and rebates. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

Receivables

<u>Source</u>	<u>As of June 30, 2016</u>
Intergovernmental Receivable:	
Title I	\$ 78,923
Title IIa	16,832
IDEA	8,947
Amounts due from other academies	2,968
Refund due from SERS	3,144
Casino tax revenue	6,272
Final adjustment from ODE	119
 Total intergovernmental receivable	 \$ 117,205
Accounts Receivable:	
 eRate rebates applied for	 \$ 21,504

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016:

**REACH ACADEMY
LUCAS COUNTY**

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

<u>Business-Type Activity</u>	<u>Balance 6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/16</u>
Capital assets being depreciated				
Furniture, fixtures and equipment	\$ 25,732	\$ -	\$ -	\$ 25,732
Leasehold improvements	14,063	-	-	14,063
	<hr/>			
Total depreciable capital assets	39,795	-	-	39,795
	<hr/>			
Less accumulated depreciation:				
Furniture, fixtures and equipment	(4,222)	(7,375)		(11,597)
Leasehold improvements	(1,631)	(2,491)		(4,122)
	<hr/>			
Total accumulated depreciation	(5,853)	(9,866)	-	(15,719)
	<hr/>			
Total depreciable capital assets - net	\$ 33,942	\$ (9,866)	\$ -	\$ 24,076
	<hr/> <hr/>			

7. RISK MANAGEMENT

A. Property and Liability

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

Coverage is as follows:

<u>Type</u>	<u>Limits</u>
Educational Errors and Omissions:	
Part 1, D&O Liability	\$1,000,000
Part 2, Employment Practices	1,000,000
Aggregate, All Parts	1,000,000
General Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Personal & ADV Injury	1,000,000
Automobile - Hired and Not Owned CSL	1,000,000
Property:	
Buildings (Included in Property Blanket Limit)	3,008,572
BI	100,000
Umbrella	15,000,000

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

7. RISK MANAGEMENT (continued)

A. Property and Liability (continued)

Settled claims have not exceeded this commercial coverage in any of the past two years. Any changes in coverage from the previous year are due to converting all TLG-managed academies to one policy with common limits.

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.

8. DEFINED BENEFIT PENSION PLANS

A. 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 STRS-SERS payable on both the accrual and modified accrual bases of accounting.

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

8. DEFINED BENEFIT PENSION PLANS (continued)

B. 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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

<u>Benefits</u>	<u>Eligible to Retire on or before August 1, 2017*</u>	<u>Eligible to Retire On or After August 1, 2017</u>
Full	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	Age 60 with 5 years of service credit or 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 years 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 allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The Academy’s contractually required contribution to SERS was \$31,004 for fiscal year 2016. The full amount has been contributed for fiscal year 2016.

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

8. DEFINED BENEFIT PENSION PLANS (continued)

C. 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 website at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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.

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

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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.

The Academy's contractually required contribution to STRS was \$99,829 for fiscal year 2016. 99.03 percent has been contributed for fiscal year 2016.

D. 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	\$ 396,745	\$ 1,703,231	\$2,099,976
Proportion of the net liability	0.00695300%	0.00616285%	
Pension expense	\$390,495	\$1,640,930	\$2,031,425

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

8. DEFINED BENEFIT PENSION PLANS (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 4,149	\$ 66,822	\$ 70,971
Net difference between projected and actual earnings on pension plan investments	29,689	85,498	115,187
Academy contributions subsequent to the measurement date	31,004	99,829	130,833
	\$ 64,842	\$ 252,149	\$ 316,991
Total deferred outflows of resources	\$ 64,842	\$ 252,149	\$ 316,991

\$130,833 reported as deferred outflows of resources related to pension resulting from the Academy's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Amortization of Deferred Outflows

Fiscal Year Ending <u>June 30</u>	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ 8,748	\$ 38,081	\$ 46,829
2018	8,748	38,081	46,829
2019	8,748	38,081	46,829
2020	7,594	38,077	45,671
	\$ 33,838	\$ 152,320	\$ 186,158
Total to be amortized	\$ 33,838	\$ 152,320	\$ 186,158

E. 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.

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

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions - SERS (continued)

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:

Calculating Total Pension Liability - SERS

<u>Method</u>	<u>Assumption</u>
Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 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

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

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 average 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 asset class are summarized in the following table:

Real Rates of Return - SERS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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
Hedge Funds	15.00	7.50
	<hr style="width: 50%; margin: 0 auto;"/>	
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 to the Academy's net pension liability is expected to be significant.

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

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (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.

Sensitivity to Changes in Discount Rate - SERS

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 550,143	\$ 396,745	\$ 267,571

F. 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:

Calculating Total Pension Liability - STRS

<u>Method</u>	<u>Assumption</u>
Inflation	2.75 percent
Projected Salary Increases	12.25 percent at age 20 to 2.75 percent at age 70
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 commences 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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	100.00 %	

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 payments 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:

Sensitivity to Changes in Discount Rate - STRS

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 2,365,917	\$ 1,703,231	\$ 1,142,832

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

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 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 a 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 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.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016 and 2015 are listed in the table below. As the Academy's first year of operation was fiscal year 2015, only two years of data is available:

Contribution for Health Care Including Surcharge - SERS

Fiscal Year Ended June 30	<u>Surcharge</u>	<u>Healthcare</u>	<u>Total</u>	<u>Percent Contributed</u>
2016	\$ 3,741	\$ -	\$ 3,741	100%
2015	-	1,717	1,717	100%

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

9. POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System of Ohio

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 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 year 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. As the Academy's first year of operation was fiscal year 2015, there were no contributions to report.

10. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2016, if applicable, cannot be determined at this time.

B. Ohio Department of Education Enrollment Review

Academy Foundation funding is based on the annualized full-time (FTE) enrollment of each student. Effective for the 2014-2015 school year, academies 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 Academy, which can extend past the fiscal year end. As of the date of this report, the review of state funding for fiscal year 2016 resulted in additional funds due to the Academy of \$119. This is recorded as an intergovernmental receivable from ODE.

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

11. PURCHASED SERVICE EXPENSES

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

Purchased Services

<u>Category</u>	<u>FY2016</u>
Salaries	\$1,021,577
Fringe benefits	2,233,597
Other professional and technical services	54,275
The Leona Group, LLC	294,623
Legal services	160
Buckeye Community Hope Foundation	56,727
Cleaning services	4,463
Repairs and maintenance	9,603
Building rental	138,000
Other rentals	9,557
Communication	37,362
Advertising	7,084
Utilities	28,888
Contracted food service	123,694
Pupil transportation	<u>162,689</u>
 Total purchased services	 <u><u>\$4,182,299</u></u>

12. OPERATING LEASES

Effective July 1, 2014, the Academy assumed a lease for a facility owned by Epiphany of the Lord Parish that was formerly occupied by another Leona Group-managed academy. Lease payments for the fiscal period were \$138,000. The lease was amended on June 30, 2015 to extend through June 30, 2019.

The following is a schedule of the future combined minimum payments required under the operating lease as of June 30, 2016.

Future Minimum Lease Payments Due

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 138,000
2018	142,000
2019	<u>142,000</u>
 Total minimum lease payments	 <u><u>\$ 422,000</u></u>

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

13. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective April 3, 2014 through June 30, 2019, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12% of the per pupil expenditures. The amount paid to TLG for fiscal period 2016 totaled \$294,623. Terms of the contracts require TLG to provide the following:

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

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

For the year ended June 30, 2016, those expenses are as follows:

Related Party Transactions

<u>Type</u>	<u>FY2016</u>
Salaries	\$ 1,021,577
Benefits	333,005
Advertising	1,636
Communications	1,338
Contracted trades	2,064
Materials and supplies	5,679
Other direct costs	17,132
Other professional and technical services	<u>15,561</u>
 Total related party transactions	 <u><u>\$ 1,397,992</u></u>

**REACH ACADEMY
LUCAS COUNTY**

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

13. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT (continued)

At June 30, 2016, the Academy had payables to The Leona Group, LLC in the amount of \$19,899. The following is a schedule of payables to The Leona Group, LLC:

<u>Balance Due to The Leona Group, LLC</u>	<u>June 30, 2016</u>
Management fees	\$ 15,492
Miscellaneous	<u>4,407</u>
Total due to The Leona Group, LLC	<u>\$ 19,899</u>

**REACH ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST FISCAL YEAR (1)

	2015
<i>State Teachers Retirement System (STRS)</i>	
Academy's proportion of the net pension liability	0.00616285%
Academy's proportionate share of the net pension liability	\$ 1,703,231
Academy's covered-employee payroll	\$ 642,993
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.89%
Plan fiduciary net position as a percentage of the total pension liability	72.10%
 <i>School Employees Retirement System (SERS)</i>	
Academy's proportion of the net pension liability	0.00695300%
Academy's proportionate share of the net pension liability	\$ 396,745
Academy's covered-employee payroll	\$ 209,317
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%
Plan fiduciary net position as a percentage of the total pension liability	69.16%

(1) Academy began operations in FY2015.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

**REACH ACADEMY
LUCAS COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ACADEMY CONTRIBUTIONS
LAST TWO FISCAL YEARS (1)

	2016	2015
<i>State Teachers Retirement System (STRS)</i>		
Contractually Required Contribution	\$ 99,829	\$ 90,019
Contributions in Relation to the Contractually Required Contribution	(99,829)	(90,019)
Contribution deficiency (excess)	\$ 0	\$ 0
Academy's covered-employee payroll	\$ 713,064	\$ 642,993
Contributions as a percentage of covered-employee payroll	14.00%	14.00%
 <i>School Employees Retirement System (SERS)</i>		
Contractually required contribution	\$ 31,004	\$ 27,588
Contributions in relation to the contractually required contribution	(31,004)	(27,588)
Contribution deficiency (excess)	\$ 0	\$ 0
Academy's covered-employee payroll	\$ 221,457	\$ 209,317
Contributions as a percentage of covered-employee payroll	14.00%	13.18%

(1) - Academy began operations in FY2015. Will eventually report last ten fiscal years.

**REACH ACADEMY
LUCAS COUNTY**

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

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for fiscal year 2016. See the notes to the basic financial statements 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 year 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for fiscal year 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.



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

REACH Academy
Lucas County
2125 University Park Drive
Okemos, Michigan 48864

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 REACH 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 May 9, 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 "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

May 9, 2017



Dave Yost • Auditor of State

REACH 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
MAY 23, 2017