



OHIO AUDITOR OF STATE
KEITH FABER



**WATKINS ACADEMY
MONTGOMERY COUNTY**

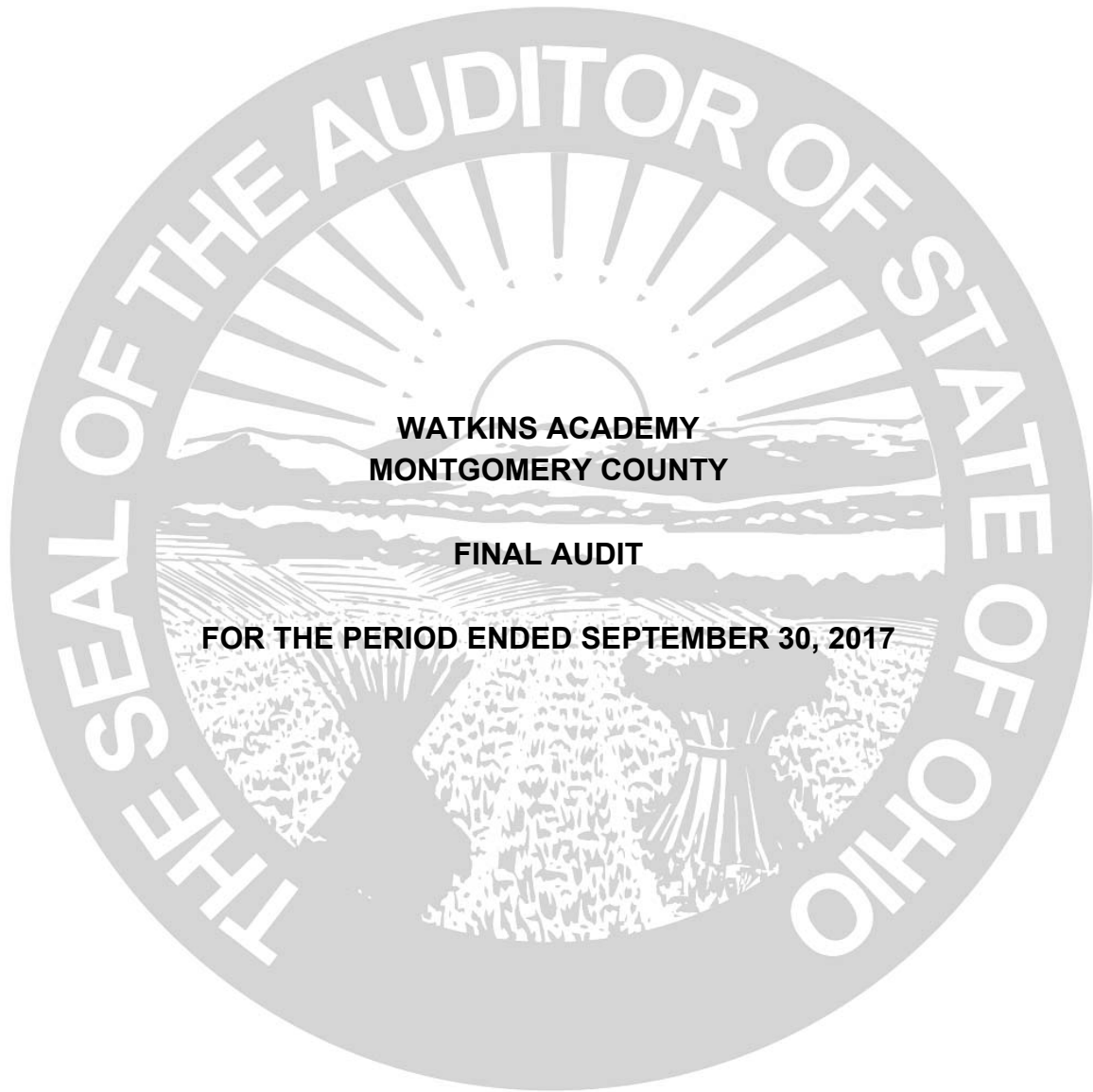
TABLE OF CONTENTS

TITLE

Final Audit – For the Period Ended September 30, 2017

Regular Audit – For the Fiscal Years Ended June 30, 2017 and 2016

This page intentionally left blank.



**WATKINS ACADEMY
MONTGOMERY COUNTY**

FINAL AUDIT

FOR THE PERIOD ENDED SEPTEMBER 30, 2017

**WATKINS ACADEMY
MONTGOMERY COUNTY
SEPTEMBER 30, 2017**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balance (Regulatory Cash Basis).....	3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	5
Schedule of Findings.....	7
Prepared by Management:	
Summary Schedule of Prior Audit Findings	11

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT

Watkins Academy
Montgomery County
Ohio Department of Education, Sponsor
25 South Front Street
Columbus, Ohio 43215

To Watkins Academy:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the cash balances, receipts, and disbursements and related notes of Watkins Academy, Montgomery County, Ohio (the Academy) as of and for the period July 1, 2017 through September 30, 2017.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the 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 conducted our engagement 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.

Because of the matters described in the *Basis for Disclaimer of Opinion* paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management has not provided certain written representations required by Auditing Standard Section AU-C Section 580, *Written Representations*, including but not limited to, management's responsibility for preparing the financial statements in conformity with the Academy's financial reporting framework, the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings; management's responsibility of the Academy's compliance with laws and regulations; the identification and disclosure of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of fraud involving management or employees with significant roles in internal control; compliance with laws, regulations, and provisions of contracts and grant agreements, including budget laws, compliance with any debt covenants, the identification of all Federal assistance programs, and compliance with Federal grant requirements.

Efficient • Effective • Transparent

Additionally, management has not provided a complete set of financial statements, including management's discussion and analysis, a cash flow statement, and notes to the financial statements. Also, the Academy prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material and would have resulted in an additional opinion modification if we had opined on the financial statements

Disclaimer of Opinion

Due to the significance of the matters discussed in the *Basis for Disclaimer of Opinion* paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the period July 1, 2017 through September 30, 2017.

Other Matter

The Academy closed effective September 30, 2017.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2021, 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 engagement performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

May 10, 2021

**WATKINS ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCE (REGULATORY CASH BASIS)
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

Operating Cash Receipts	
Casino Aid	\$ 2,826
Miscellaneous	813
	<hr/>
<i>Total Operating Cash Receipts</i>	<i>3,639</i>
	<hr/>
<i>Operating Income</i>	<i>3,639</i>
	<hr/>
Non-Operating Disbursements	
Principal Retirement	(2,709)
Interest and Other Fiscal Charges	(1,791)
	<hr/>
<i>Total Non-Operating Disbursements</i>	<i>(4,500)</i>
	<hr/>
<i>Net Change in Cash Balance</i>	<i>(861)</i>
	<hr/>
<i>Cash Balance, July 1</i>	<i>10,167</i>
	<hr/>
<i>Cash Balance, September 30</i>	<i>\$ 9,306</i>
	<hr/> <hr/>

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

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

Watkins Academy
Montgomery County
Ohio Department of Education, Sponsor
25 South Front Street
Columbus, Ohio 43215

To Watkins Academy:

We were engaged to audit, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of Watkins Academy, Montgomery County, (the Academy) as of and for the period July 1, 2017 through September 30, 2017, and the related notes to the financial statements and have issued our report thereon dated May 10, 2021, wherein we noted the Academy followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Additionally, the Academy did not present a full set of financial statements or notes to the financial statements. We did not opine on these financial statements because management did not provide certain written representations required by Auditing Standard Section AU-C Section 580, *Written Representations*. We also noted the Academy closed effective September 30, 2017.

Internal Control Over Financial Reporting

As part of our financial statement engagement, 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-002 to be a material weakness.

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 financial statement. However, opining on compliance with those provisions was not an objective of our engagement and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2018-001 and 2018-003.

Academy's Responses to Findings

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the Academy's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

May 10, 2021

**WATKINS ACADEMY
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
SEPTEMBER 30, 2017**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2018-001

Noncompliance – Financial Reporting

Ohio Rev. Code § 117.38 provides that each public office, “shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.”

Ohio Admin. Code § 117-2-03(B) further clarifies the requirements of Ohio Rev. Code § 117.38, which requires the Academy to file annual financial reports prepared using generally accepted accounting principles (GAAP).

The Academy prepared financial statements in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while material, cannot be determined at this time. Additionally, the only report item provided for audit was a Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balance. The accompanying financial statements omit the management's discussion and analysis, cash flow statement, and notes to the financial statements.

Pursuant to Ohio Rev. Code § 117.38, the Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the Academy's ability to evaluate and monitor the overall financial condition of the Academy. To help provide the users with more meaningful financial statements, the Academy should have prepared its annual financial statements according to generally accepted accounting principles.

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the finding and cannot provide a substantive response, the finding is acknowledged and duly noted.

FINDING NUMBER 2018-002

Material Weakness – Financial Statement Errors

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The Academy's financial statements were prepared in accordance with the regulatory - cash basis of accounting. The Academy's financial report contained errors which resulted in reclassifications to correctly report the Academy's financial activity.

**FINDING NUMBER 2018-002
(Continued)**

The Academy improperly classified debt payments as operating disbursements on the Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balance for the period ending September 30, 2017. As a result, non-operating disbursements: principal retirement and non-operating disbursements: interest and other fiscal charges were understated by \$2,709 and \$1,791, respectively, and operating disbursements: rentals was overstated by \$4,500. The accompanying financial statements have been adjusted for these errors.

Policies and procedures should have been established and implemented to verify the accuracy of amounts reported in the financial statements in accordance with applicable accounting standards. Failure to do so could result in the users of the financial statements basing their conclusions on materially misstated financial data.

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the findings against the School treasurer, Mr. Adams, and cannot provide a substantive response regarding the transaction the finding is acknowledged and duly noted. The Department monitors the fiscal health and late payments of each sponsored schools and has greatly improved our processes and procedures since 2018 and oversight of the financial health of each sponsored school.

Treasurer's Response

Mr. Adams contends that due to the delay of the release of the FY 17 Audit he did not have the corrected financial statements to prepare the FY 18 statements.

Auditor of State Conclusion:

The Academy's fiscal year 2017 and 2016 and period ended September 30, 2017 statements were audited concurrently.

FINDING NUMBER 2018-003

Noncompliance – Failure to Provide Records

Ohio Rev. Code § 149.351(A) states, in part, all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

The following items were not provided for audit by the Academy:

- Canceled check images for the following checks:
 - Check number 2067 issued to Alliance Facilities Management for \$2,700
 - Check number 2068 issued to Dixon United Methodist for \$1,800
- Support for deposit of \$813 which is reported in the accompanying financial statements as miscellaneous receipts.

The Academy should have implemented policies and procedures to retain all required records. Failure to do so could result in improper transactions going undetected by Academy management and an incomplete audit trail.

**FINDING NUMBER 2018-003
(Continued)**

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the findings regarding the school's destruction of public records specifically cancelled checks and deposit records, the finding is acknowledged and duly noted. The Department has implemented additional monitoring and sponsor oversight since 2018. As a result of new processes and procedures implemented after 2018, the Department requires all schools to attend annual public records trainings and maintain public records at each school building and requires the School's treasurer to maintain records of all financial transactions in accordance with the school's record retention policies that comply with Ohio law.

Treasurer's Response

Mr. Adams surrendered the documents to be audited more than 4 years ago and contends that the necessary records were given to the AOS at that time. Mr. Adams denies that he was involved in any destruction of public records. He contends that, due to the termination of the school, the records must have been lost. When the school closed, ODE had multiple staff members and contractors handling the school's records before asking Mr. Adams to come back and assist with the final audit. When Mr. Adams came back to assist, the items he had surrendered were not available.

Auditor of State Conclusion:

The Academy did not provide the items identified in the finding above.

This page intentionally left blank.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2017**

Finding Number	Finding Summary	Status	Additional Information
2017-001	Noncompliance / Finding For Recovery – Employee Reimbursements	Not Corrected; However, Finding Not Required to be Included in Report for Period of July 1, 2017 - September 30, 2017	Sponsor’s Response: While the Department, as a Sponsor, did not have a role in the findings against the School leader, Ms. Watkins-Tyree, and the School treasurer, Mr. Adams, and cannot provide a substantive response regarding the transaction or reimbursement by the licensed treasurer Mr. Adams, the finding is acknowledged and duly noted. Should Ms. Watkins-Tyree or Mr. Adams become employed by any Department sponsored schools, the Department will closely monitor the school and ensure that all findings for recovery against Ms. Watkins-Tyree and Mr. Adams are resolved prior to her employment with a school.
2017-002	Noncompliance / Finding For Recovery – Debit Card Transactions	Not Corrected; However, Finding Not Required to be Included in Report for Period of July 1, 2017 - September 30, 2017	Sponsor’s Response: While the Department, as a Sponsor, did not have a role in the findings against the School leader, Ms. Watkins-Tyree, and cannot provide a substantive response regarding the transactions, the finding is acknowledged and duly noted. The Department, as a Sponsor, requires all schools to adopt a debit card policy that complies with Ohio law and report all transactions using a debit card during the Governing Authority financial committee meetings as well as during board meetings. The Department will continue to closely monitor all sponsored school’s policies to ensure compliance with law and ensure that schools are properly reporting financial transactions.

Finding Number	Finding Summary	Status	Additional Information
2017-003	Noncompliance / Finding for Recovery – Late Fees	Not Corrected; However, Finding Not Required to be Included in Report for Period of July 1, 2017 - September 30, 2017	Sponsor's Response: While the Department, as a Sponsor, did not have a role in the findings against the School treasurer, Mr. Adams, and cannot provide a substantive response regarding the transaction the finding is acknowledged and duly noted. The Department monitors the fiscal health and late payments of each sponsored schools and has greatly improved our processes and procedures since 2018 and oversight of the financial health of each sponsored school.
2017-004	Noncompliance / Finding for Recovery – Sales Tax	Not Corrected; However, Finding Not Required to be Included in Report for Period of July 1, 2017 - September 30, 2017	Sponsor's Response: While the Department, as a Sponsor, did not have a role in the findings against the School treasurer, Mr. Adams, and cannot provide a substantive response regarding the transaction by the licensed treasurer Mr. Adams, the finding is acknowledged and duly noted. The Department will remind sponsored schools regarding sales tax exemptions.
2017-005	Material Weakness – Purchasing Procedures	Not Corrected; However, Finding Not Required to be Included in Report for Period of July 1, 2017 - September 30, 2017	Sponsor's Response: While the Department, as a Sponsor, did not have a role in the findings regarding school purchases and cannot provide a substantive response regarding the transactions or reimbursement and the finding is acknowledged and duly noted. The Department has implemented additional monitoring and sponsor oversight since 2018. As a result of new processes and procedures implemented after 2018, the Department monitors the financial health of each sponsored school and requires each sponsored school to develop and follow fiscal controls.

Finding Number	Finding Summary	Status	Additional Information
2017-006	Material Weakness – Financial Statement Errors	Not Corrected, Repeated as Finding 2018-002	Sponsor's Response: While the Department, as a Sponsor, did not have a role in the findings regarding accuracy of the School's treasurer's financial statement and cannot provide a substantive response regarding the transactions or reimbursement and the finding is acknowledged and duly noted. The Department has implemented additional monitoring and sponsor oversight since 2018. As a result of new processes and procedures implemented after 2018, the Department monitors the financial health of each sponsored school, reviews financial records monthly, and requires each sponsored school to develop and follow fiscal controls.
2017-007	Noncompliance – Destruction of Public Records	Not Corrected, Repeated as Finding 2018-003	Sponsor's Response: While the Department, as a Sponsor, did not have a role in the findings regarding the school's destruction of public records and cannot provide a substantive response, the finding is acknowledged and duly noted. The Department has implemented additional monitoring and sponsor oversight since 2018. As a result of new processes and procedures implemented after 2018, the Department requires all schools to attend annual public records trainings and maintain public records at each school building. In addition, the Department collects a copy of each sponsored school's board meeting packets including meeting minutes and school policies as part of its compliance oversight responsibilities.

This page intentionally left blank.



**WATKINS ACADEMY
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

OHIO AUDITOR OF STATE
KEITH FABER



**WATKINS ACADEMY
MONTGOMERY COUNTY
JUNE 30, 2017 AND 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis - For the Fiscal Year Ended June 30, 2017.....	3
Basic Financial Statements:	
Statement of Net Position – June 30, 2017	9
Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2017.....	10
Statement of Cash Flows For the Fiscal Year Ended June 30, 2017.....	11
Notes to the Basic Financial Statements - For the Fiscal Year Ended June 30, 2017.....	13
Required Supplementary Information:	
Schedule of the Academy's Contributions – Last Four Fiscal Years	31
Schedule of the Academy's Proportionate Share of the Net Pension Liability – Last Three Fiscal Years	32
Management's Discussion and Analysis - For the Fiscal Year Ended June 30, 2016.....	33
Basic Financial Statements:	
Statement of Net Position – June 30, 2016	39
Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2016.....	40
Statement of Cash Flows For the Fiscal Year Ended June 30, 2016.....	41
Notes to the Basic Financial Statements - For the Fiscal Year Ended June 30, 2016.....	43
Required Supplementary Information:	
Schedule of the Academy's Proportionate Share of the Net Pension Liability – Last Two Fiscal Years	61
Schedule of the Academy's Contributions – Last Three Fiscal Years	62

**WATKINS ACADEMY
MONTGOMERY COUNTY
JUNE 30, 2017 AND 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	63
Schedule of Findings.....	65
Prepared by Management:	
Summary Schedule of Prior Audit Findings	75
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	77

OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT

Watkins Academy
Montgomery County
Ohio Department of Education, Sponsor
25 South Front Street
Columbus, Ohio 43215

To Watkins Academy:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Watkins Academy, Montgomery County, Ohio (the Academy), as of and for the fiscal years ended June 30, 2017 and 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 conducted our engagement 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.

Because of the matters described in the *Basis for Disclaimer of Opinion* paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management has not provided certain written representations required by Auditing Standard Section AU-C Section 580, *Written Representations*, including but not limited to, management's responsibility for preparing the financial statements in conformity with the Academy's financial reporting framework, the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings; management's responsibility of the Academy's compliance with laws and regulations; the identification and disclosure of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of fraud involving management or employees with significant roles in internal control; compliance with laws, regulations, and provisions of contracts and grant agreements, including budget laws, compliance with any debt covenants, the identification of all Federal assistance programs, and compliance with Federal grant requirements.

Disclaimer of Opinion

Due to the significance of the matters discussed in the *Basis for Disclaimer of Opinion* paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the fiscal years ended June 30, 2017 and 2016.

Emphasis of Matter

As discussed in Notes 16 and 17 to the financial statements for the fiscal years ended June 30, 2017 and 2016, respectively, the Academy closed effective September 30, 2017.

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 10, 2021, 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 engagement performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

May 10, 2021

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED**

The discussion and analysis of Watkins Academy (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- Total net position was \$(355,220) in fiscal year 2017.
- Total operating and non-operating revenues were \$1,036,282 in fiscal year 2017.
- Total expenses were \$1,242,515 in fiscal year 2017.
- Current liabilities were \$77,851 in fiscal year 2017.
- The long-term liabilities were \$1,579,073 in fiscal year 2017.
- Net Pension Liability increased \$449,908 which is offset by a decrease of \$49,207 in Deferred Inflows

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position reflect how the Academy did financially during their fourth year of operations of 2017. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the Academy's Net Position and changes in that net position. This change in Net Position is important because it tells the reader whether the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)**

Statement of Net Position

Table 1 provides a summary of the Academy's Net Position for fiscal years 2017 and 2016.

**(Table 1)
Statement of Net Position**

	2017	2016
Assets		
Current Assets	\$ 50,284	\$ 62,624
Noncurrent Assets	478,504	497,824
Total Assets	528,788	560,448
 Deferred Outflows of Resources		
Pension Requirements	772,916	616,282
 Liabilities		
Current Liabilities	77,851	112,205
Long-Term Liabilities	1,579,073	1,164,306
Total Liabilities	1,656,924	1,276,511
 Deferred Inflows of Resources		
Pension Requirements	-	49,207
 Net Position		
Net Investment in Capital		
Assets	92,627	80,384
Unrestricted	(447,847)	(229,372)
Total Net Position	\$ (355,220)	\$ (148,988)

For fiscal year 2017, total assets were \$528,788, while total liabilities were \$1,656,924. Cash and cash equivalents were \$10,167 while intergovernmental receivables were \$40,117.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)**

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in net position for the fiscal year ended June 30, 2017, as well as a listing of revenues and expenses, as compared to changes reported for fiscal year 2016.

**(Table 2)
Change in Net Position**

	2017	2016
Operating Revenues		
State Aid	\$ 801,264	\$ 759,124
Casino Aid	5,257	4,819
Facilities Aid	20,528	15,392
Other Operating	476	4,196
Non-Operating Revenues		
Grants	208,757	171,231
Total Revenues	1,036,282	954,762
 Operating Expenses		
Salaries	442,965	379,489
Fringe Benefits	325,292	222,240
Purchased Services	385,895	426,753
Materials and Supplies	27,532	39,700
Depreciation	19,320	15,918
Other	16,602	36,967
Non-Operating Expenses		
Interest and Fiscal Charges	24,908	20,442
Total Expenses	1,242,514	1,141,509
 Change in Net Position	 \$ (206,232)	 \$ (186,747)

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 cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 80% of revenues while federal made up the remaining. The Academy's most significant expense, Salaries represents 36% of total expenses which represent payments to employees for duties performed under contract.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)**

Net Pension Liability

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 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 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.

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 of resources.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)**

Budgeting Highlights

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

Capital Assets

At the end of fiscal year 2017, the Academy had net capital assets in the amount of \$478,504.

Debt

At June 30 2017, the Academy had \$1,579,073 of long-term liabilities and \$77,851 of current liabilities. Of those amounts, \$385,877 represents notes payable and \$8,699 represents capital lease payable at June 30, 2017.

Current Financial Related Activities

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

Contacting Management

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

THIS PAGE INTENTIONALLY LEFT BLANK

**WATKINS ACADEMY
MONTGOMERY COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2017**

ASSETS

Current Assets

Cash and Cash Equivalents	\$	10,167
Intergovernmental Receivable		40,117

Total Current Assets		50,284
----------------------	--	--------

Noncurrent Assets

Non-Depreciable Capital Assets		45,235
Depreciable Capital Assets, net		433,269

Total Noncurrent Assets		478,504
-------------------------	--	---------

Total Assets		528,788
--------------	--	---------

DEFERRED OUTFLOWS OF RESOURCES

Pension Requirements		772,916
----------------------	--	---------

LIABILITIES

Current Liabilities

Accounts Payable		18,093
Accrued Wages and Benefits		24,618
Capital Leases Payable, due in one year		1,797
Notes Payable, due in one year		33,343

Total Current Liabilities		77,851
---------------------------	--	--------

Long-Term Liabilities:

Capital Leases Payable, due within more than one year		6,902
Notes Payable, due within more than one year		352,534
Net Pension Liabilities		1,219,637

Total Long-Term Liabilities		1,579,073
-----------------------------	--	-----------

Total Liabilities		1,656,924
-------------------	--	-----------

NET POSITION

Net Investment in Capital Assets		92,627
Unrestricted		(447,847)

Total Net Position	\$	(355,220)
--------------------	----	-----------

See accompanying notes to the basic financial statements

**WATKINS ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

OPERATING REVENUES	
State Aid	\$ 801,264
Casino Aid	5,257
Facilities Aid	20,528
Other Operating	<u>476</u>
Total Operating Revenues	<u>827,525</u>
OPERATING EXPENSES	
Salaries	442,965
Fringe Benefits	325,292
Purchased Services	385,895
Materials and Supplies	27,532
Depreciation	19,320
Other	<u>16,602</u>
Total Operating Expenses	<u>1,217,606</u>
OPERATING (LOSS)	<u>(390,081)</u>
NON-OPERATING REVENUES (EXPENSES)	
Grants	208,757
Interest and Fiscal Charges	<u>(24,908)</u>
Total Non-Operating Revenues (Expenses)	<u>183,849</u>
CHANGE IN NET POSITION	<u>(206,232)</u>
NET POSITION BEGINNING OF YEAR	<u>(148,988)</u>
NET POSITION END OF YEAR	<u><u>\$ (355,220)</u></u>

See accompanying notes to the basic financial statements

**WATKINS ACADEMY
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 786,531
Cash Received from Other Operating Sources	476
Cash Payments to Employees for Services	(474,106)
Cash Payments for Employee Benefits	(81,226)
Cash Payments to Suppliers for Goods and Services	(411,771)
Other Cash Payments	<u>(16,602)</u>
Net Cash (Used in) Operating Activities	<u>(196,698)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grants	<u>260,160</u>
---------------------------	----------------

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Interest Paid-Notes Payable	(22,446)
Principal Payments-Notes Payable	(32,356)
Interest Paid-Capital Lease Payable	(1,511)
Principal Payments-Capital Lease Payable	<u>(1,669)</u>
Net Cash (Used in) Capital and Related Financing Activities	<u>(57,982)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>5,480</u>
--	--------------

CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>4,687</u>
--	--------------

CASH AND CASH EQUIVALENTS END OF YEAR	<u><u>\$ 10,167</u></u>
--	-------------------------

**RECONCILIATION OF OPERATING (LOSS) TO NET CASH
(USED IN) OPERATING ACTIVITIES**

Operating (Loss)	\$ (390,081)
------------------	--------------

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED IN OPERATING ACTIVITIES**

Depreciation	19,320
Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources:	
Accounts Payable	1,655
Accrued Wages and Benefits	(31,142)
Intergovernmental Payable	(6,934)
Net Pension Liability	449,908
Deferred Outflows	(156,634)
Deferred Inflows	(49,207)
Intergovernmental Receivable	<u>(33,583)</u>

Net Cash (Used in) Operating Activities	<u><u>\$ (196,698)</u></u>
---	----------------------------

See accompanying notes to the basic financial statements

THIS PAGE INTENTIONALLY LEFT BLANK

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

The Academy was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years from July 1, 2013 through June 30, 2018. The Academy operates under a self-appointing five-member Board of Directors (the Board). The Academy's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility. The facility is staffed with teaching personnel who provide services to 103 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

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

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred inflows of resources and all liabilities and deferred outflows 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 total net position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. Revenue resulting from exchange transactions, in which each party gives

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy received value without directly giving equal value in return, such as grants, entitlements, and donations are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

C. BUDGETARY PROCESS

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

D. CASH AND CASH EQUIVALENTS

All cash received by the Academy is maintained in a demand deposit account. The Academy did not have any investments during fiscal year 2017.

E. CAPITAL ASSETS AND DEPRECIATION

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

The capital assets are recorded on the accompanying Statement of Net Position at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method over the following useful lives: Leasehold land and buildings - 50 years, ICT related fixed assets - 1 to 4 years, and all other type fixed assets - 5 years.

F. INTERGOVERNMENTAL REVENUES

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

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

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INTERGOVERNMENTAL REVENUES (Continued)

Eligibility requirements, include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Amounts awarded under the above programs for the 2017 school year totaled \$1,035,806.

G. OPERATING REVENUES AND EXPENSES

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

H. NET POSITION

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

I. USE OF ESTIMATES

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

J. 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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes 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 are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 5.

In addition to liabilities, the statement of financial position will sometimes 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 as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The Academy did not have deferred inflow of resources at June 30, 2017.

3. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30 2017, the carrying amount of the Academy's deposits was \$10,167 and the bank balance was \$18,243. Of the bank balance, all was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure, \$0 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

4. RISK MANAGEMENT

Property and Liability - The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy has contracted with the Great American Insurance for property and general liability insurance. The property insurance limits are \$1,000 deductible and \$1,000,000 aggregate. The general liability insurance limits are \$1,000,000 each occurrence and \$2,000,000 aggregate.

Director and Officer - Coverage has been purchased by the Academy with a \$2,000,000 aggregate limit and \$1,000.

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

Settled claims have not exceeded insurance coverage for the past three fiscal years. There has been no significant reduction in insurance coverage from the prior fiscal year.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. 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.

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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Plan Description - School Employees Retirement System (SERS) (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

C. 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, 2017, 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 2017.

The Academy's contractually required contribution to SERS was \$15,788 for fiscal year 2017.

D. 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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Plan Description - State Teachers Retirement System (STRS) (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 at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Plan Description - State Teachers Retirement System (STRS) (Continued)

Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The contribution requirement of plan members and employers are established and may be amended by the STRS' Retirement Board. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and was increased one percent each year until it reached 14 percent on July 1, 2016. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 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 2017 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$51,661 for fiscal year 2017.

E. 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, 2016, 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 employer'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:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$927,825	\$291,812	\$1,219,637
Proportion of the Net Pension Liability			
Current Measurement Date	0.00277186%	0.00398700%	
Prior Measurement Date	0.00221130%	0.00277930%	
Change in Proportionate Share	0.00056056%	0.00120770%	
Pension Expense	227,826	83,690	\$311,516

At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$37,489	\$3,936	\$41,425
Net difference between projected and actual earnings on pension plan investments	77,034	24,070	101,104
Changes of assumptions		19,480	19,480
Changes in proportion and differences between Academy contributions and proportionate share of contributions	422,136	121,322	543,458
Academy contributions subsequent to the measurement date	<u>51,661</u>	<u>15,788</u>	<u>67,449</u>
Total Deferred Outflows of Resources	<u>\$588,320</u>	<u>\$184,596</u>	<u>\$772,916</u>

\$67,449 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 fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$177,280	\$65,224	\$242,504
2019	177,280	65,208	242,488
2020	119,889	31,457	151,346
2021	<u>62,210</u>	<u>6,919</u>	<u>69,129</u>
Total	<u>\$536,659</u>	<u>\$168,808</u>	<u>\$705,467</u>

F. 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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. 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, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic 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:

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions – SERS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
	<u>100.00 %</u>	

G. Discount Rate

The total pension liability was calculated using the discount rate of 7.50 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 (7.50 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.

H. 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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Academy's proportionate share of the net pension liability	\$ 386,340	\$ 291,812	\$ 212,687

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

I. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
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 the fifth anniversary of the 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 no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate 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	<u>1.00</u>	<u>3.00</u>
Total	<u>100.00 %</u>	<u>7.61 %</u>

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

J. Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

K. 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 as of June 30, 2016, 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%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 1,233,004	\$ 927,825	\$ 670,389

L. Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to Academy's NPL is expected to be significant.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

6. 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 2017, 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 2017, this amount was \$23,500. 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 2017, the Academy's surcharge obligations was \$2,007.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2017, 2016, and 2015 were \$2,007, \$1,495, and \$2,504, respectively. The full amount has been contributed for fiscal years 2017, 2016, and 2015.

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 or by calling (888) 227-7877.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

6. POSTEMPLOYMENT BENEFITS (CONTINUED)

B. State Teachers Retirement System (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. 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 2017, 2016, and 2015, STRS did not allocate any employer contributions to post-employment health care, therefore the Academy did not contribute to health care in the last three fiscal years.

7. CONTINGENCIES

A. GRANTS

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

B. FULL TIME EQUIVALENCY

Academy foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017.

The total adjustments to FTE for fiscal year 2017 resulted in an amount due to the Academy of \$33,584 which is reported as an intergovernmental receivable on the Statement of Net Position.

8. FEDERAL TAX STATUS

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

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

9. SPONSORSHIP FEES

The Academy contracts with Ohio Department of Education to be its sponsor effective July 1, 2013 through June 30, 2018. The contract states "...the annual sponsorship fee to be paid to Ohio Department of Education be set at 3 percent of the State's annual School Foundation support..." The Sponsor is to provide oversight, monitoring, and technical assistance for the Academy. Amount paid to Ohio Department of Education for fiscal year 2017 was \$23,031.

10. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2017, follows:

	Balance	Additions	Deletions	Balance
Capital Assets Not Being Depreciated:	<u>6/30/2016</u>	<u> </u>	<u> </u>	<u>6/30/2017</u>
Land	\$ 45,235	\$ -	\$ -	\$ 45,235
 Capital Assets Being Depreciated:				
Buildings	429,765	-	-	429,765
Computers & Equipment	<u>42,875</u>	<u>-</u>	<u>-</u>	<u>42,875</u>
Total Capital Assets Being Depreciated	<u>472,640</u>	<u>-</u>	<u>-</u>	<u>472,640</u>
 Less Accumulated Depreciation:				
Buildings	(10,744)	(10,744)	-	(21,488)
Computers & Equipment	<u>(9,307)</u>	<u>(8,576)</u>	<u>-</u>	<u>(17,883)</u>
Total Accumulated Depreciation	<u>(20,051)</u>	<u>(19,320)</u>	<u>-</u>	<u>(39,371)</u>
 Total Capital Assets, Net	 <u>\$ 497,824</u>	 <u>\$ (19,320)</u>	 <u>\$ -</u>	 <u>\$ 478,504</u>

11. PURCHASED SERVICES

For the period July 1, 2016 through June 30, 2017, purchased service expenses were for the following services:

	<u>2017</u>
Professional and Technical Services	\$ 135,484
Property Services	38,817
Travel Mileage/Meals	4,456
Communications	12,885
Utilities	62,997
Contracted Trade Services	79,268
Transportation	<u>51,988</u>
	<u>\$ 385,895</u>

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

12. ACCOUNTS RECEIVABLE AND PREPAID

At June 30, 2017, the Academy had no accounts receivable and had intergovernmental receivables in the amount of \$40,117. Intergovernmental receivables consist of federal assistance (CCIP) which eligibility requirements have been met (earned) at June 30, 2017, but the cash was not received by year end as well as FTE adjustments as discussed in Note 7. The Academy also had no prepaid items during fiscal year 2017.

13. ACCOUNTS PAYABLE

At June 30, 2017, the Academy had accounts payable totaling \$18,093 due various vendors during the normal course of conducting operations.

14. ACCRUED WAGES AND BENEFITS

Accrued wages and benefits were \$24,618 at June 30, 2017 which represents wages, with associated benefits, earned and not paid at June 30, 2017 for certain Academy teachers paid over a 12 month period.

15. LONG-TERM LIABILITIES AND CAPITAL LEASE OBLIGATIONS

A summary of long-term obligation on the mortgage outstanding for land, buildings and improvements at June 30, 2017, is as follows:

	Principal Outstanding			Principal Outstanding		Amounts Due Within
	<u>6/30/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2017</u>	<u>one year</u>	
Land Contract	\$ 417,440	\$ -	\$ (31,563)	\$ 385,877	\$ 33,343	
Copier Lease	<u>10,210</u>	<u>-</u>	<u>(1,511)</u>	<u>8,699</u>	<u>1,797</u>	
Total Long-Term Liabilities	<u>\$ 427,650</u>	<u>\$ -</u>	<u>\$ (33,074)</u>	<u>\$ 394,576</u>	<u>\$ 35,140</u>	

Net Pension Liability – See Note 5 for related information.

Land Contract – In July of 2015, the Academy purchased land and improvements at 4415 Dayton-Liberty Road; property and land at 4401 Dayton-Liberty Road from Dixon United Methodist Church, Inc.; and the building at 4401 Dayton-Liberty Road property from Alliance Facilities Management, Inc. The total contract price is \$475,000. The purchase was made using a Land Contract for a total of \$445,000 shall be paid in full on or before September 15, 2018. The Academy paid \$31,563 in principal and \$22,446 in interest for the fiscal year ended June 30, 2017.

Capital Lease - The Academy entered into a capitalized lease for the acquisition of equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefit and risk of ownership to the lessee. This capital lease has been recorded as a capital asset at the present value of the minimum lease payments as of the inception date. The capital lease is recorded as Equipment of \$10,548. The Academy paid \$1,511 in principal and \$1,669 in interest for the fiscal year ended June 30, 2017.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

15. LONG-TERM LIABILITIES AND CAPITAL LEASE OBLIGATIONS (Continued)

	Principal	Interest	Total
2018	\$ 35,140	\$ 22,049	\$ 57,189
2019	355,082	5,918	361,000
2020	2,138	1,042	3,180
2021	2,216	165	2,381
Total	\$ 394,576	\$ 29,174	\$ 423,750

16. DISSOLUTION OF THE ACADEMY

The Academy suspended operations on June 29, 2017 and was closed effective September 30, 2017.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
LAST FOUR FISCAL YEARS (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
State Teachers Retirement System (STRS)				
Contractually required contribution	\$ 51,661	\$ 40,831	\$ 32,300	\$ 25,199
Contributions in relation to the contractually required contribution	<u>\$ (51,661)</u>	<u>\$ (40,831)</u>	<u>\$ (32,300)</u>	<u>\$ (25,199)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 369,007	\$ 291,650	\$ 230,714	\$ 193,838
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School Employees Retirement System (SERS)				
Contractually required contribution	\$ 15,788	\$ 17,335	\$ 11,208	\$ 8,907
Contributions in relation to the contractually required contribution	<u>\$ (15,788)</u>	<u>\$ (17,335)</u>	<u>\$ (11,208)</u>	<u>\$ (8,907)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 112,771	\$ 123,821	\$ 85,038	\$ 62,264
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

(1) Fiscal year 2014 was the Academy's first year of operations.

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
State Teachers Retirement System (STRS)			
Academy's proportion of the net pension liability	0.00277186%	0.00221130%	0.00150052%
Academy's proportionate share of the net pension liability	\$ 927,825	\$ 611,140	\$ 364,979
Academy's covered-employee payroll	\$ 291,650	\$ 230,714	\$ 193,838
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	318.13%	264.89%	188.29%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%
	<u>2017</u>	<u>2016</u>	<u>2015</u>
School Employees Retirement System (SERS)			
Academy's proportion of the net pension liability	0.00398700%	0.00277930%	0.00219900%
Academy's proportionate share of the net pension liability	\$ 291,812	\$ 158,589	\$ 111,290
Academy's covered-employee payroll	\$ 123,821	\$ 85,038	\$ 64,264
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	235.67%	186.49%	173.18%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	69.16%	71.70%

(1) Fiscal year 2014 was the Academy's first year of operations.

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

School Employees Retirement System (SERS)

Changes in Benefit Terms: None

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following changes were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED**

The discussion and analysis of Watkins Academy (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30 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.

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

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- Total net position was \$(148,988) in fiscal year 2016.
- Total operating and non-operating revenues were \$954,762 in fiscal year 2016.
- Total expenses were \$1,141,509 in fiscal year 2016.
- Current liabilities were \$112,205 in fiscal year 2016.
- The long-term liabilities were \$1,164,306 in fiscal year 2016.
- Net Pension Liability increased \$ 293,460 which is offset by a decrease of \$36,378 in Deferred Inflows

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position reflect how the Academy did financially during their third year of operations of 2016. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the Academy's Net Position and changes in that net position. This change in Net Position is important because it tells the reader whether the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

Statement of Net Position

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

**(Table 1)
Statement of Net Position**

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	\$ 62,624	\$ 118,957
Noncurrent Assets	<u>497,824</u>	<u>8,719</u>
Total Assets	<u>560,448</u>	<u>127,676</u>
Deferred Outflows of Resources		
Pension Requirements	<u>616,282</u>	<u>500,391</u>
Liabilities		
Current Liabilities	112,205	28,454
Long-Term Liabilities	<u>1,164,306</u>	<u>476,269</u>
Total Liabilities	<u>1,276,511</u>	<u>504,723</u>
Deferred Inflows of Resources		
Pension Requirements	<u>49,207</u>	<u>85,585</u>
Net Position		
Net Investment in Capital		
Assets	80,384	8,719
Unrestricted	<u>(229,372)</u>	<u>29,040</u>
Total Net Position	<u>\$ (148,988)</u>	<u>\$ 37,759</u>

For fiscal year 2016, total assets were \$560,448, while total liabilities were \$1,276,511. Cash and cash equivalents were \$4,687 while intergovernmental receivables were \$57,937.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in net position for the fiscal year ended June 30, 2016, as well as a listing of revenues and expenses, as compared to changes reported for fiscal year 2015.

**(Table 2)
Change in Net Position**

	2016	2015
Operating Revenues		
State Aid	\$ 759,124	\$ 597,124
Casino Aid	4,819	3,321
Facilities Aid	15,392	6,817
Other Operating	4,196	3,079
Non-Operating Revenues		
Grants	171,231	117,872
Total Revenues	954,762	728,213
Operating Expenses		
Salaries	379,489	303,627
Fringe Benefits	222,240	160,414
Purchased Services	426,753	214,272
Materials and Supplies	39,700	31,202
Depreciation	15,918	2,473
Other	36,967	23,114
Non-Operating Expenses		
Interest and Fiscal Charges	20,442	-
Total Expenses	1,141,509	735,102
Change in Net Position	\$ (186,747)	\$ (6,889)

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 cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 82% of revenues while federal made up the remaining. The Academy's most significant expense, Purchased Services, represents 37% of total expenses which represent payments to various vendors.

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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

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.

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 of resources.

Budgeting Highlights

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

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

Capital Assets

At the end of fiscal year 2016, the Academy had net capital assets in the amount of \$497,824.

Debt

At June 30 2016, the Academy had \$1,164,306 of long-term liabilities and \$112,205 of current liabilities. Of those amounts, \$417,440 represents notes payable and \$10,210 represents capital lease payable at June 30, 2016.

Current Financial Related Activities

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

Contacting Management

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

THIS PAGE INTENTIONALLY LEFT BLANK

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 4,687
Intergovernmental Receivable	57,937

Total Current Assets	62,624
----------------------	--------

Noncurrent Assets

Non-Depreciable Capital Assets	45,235
Depreciable Capital Assets, net	452,589

Total Noncurrent Assets	497,824
-------------------------	---------

Total Assets	560,448
--------------	---------

DEFERRED OUTFLOWS OF RESOURCES

Pension Requirements	616,282
----------------------	---------

LIABILITIES

Current Liabilities

Accounts Payable	16,438
Accrued Wages and Benefits	55,760
Intergovernmental Payable	6,934
Capital Leases Payable, due within one year	1,511
Notes Payable, due within one year	31,562

Total Current Liabilities	112,205
---------------------------	---------

Long-Term Liabilities:

Capital Leases Payable, due in more than one year	8,699
Notes Payable, due in more than one year	385,878
Net Pension Liabilities	769,729

Total Long-Term Liabilities	1,164,306
-----------------------------	-----------

Total Liabilities	1,276,511
-------------------	-----------

DEFERRED INFLOWS OF RESOURCES

Pension Requirements	49,207
----------------------	--------

Net Position

Net Investment in Capital Assets	80,384
Unrestricted	(229,372)

Total Net Position	\$ (148,988)
--------------------	--------------

See accompanying notes to the basic financial statements

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO**

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

OPERATING REVENUES	
State Aid	\$ 759,124
Casino Aid	4,819
Facilities Aid	15,392
Other Operating	<u>4,196</u>
Total Operating Revenues	<u>783,531</u>
OPERATING EXPENSES	
Salaries	379,489
Fringe Benefits	222,240
Purchased Services	426,753
Materials and Supplies	39,700
Depreciation	15,918
Other	<u>36,967</u>
TOTAL OPERATING EXPENSES	<u>1,121,067</u>
OPERATING LOSS	<u>(337,536)</u>
NON-OPERATING REVENUES (EXPENSES)	
Grants	171,231
Interest and Fiscal Charges	<u>(20,442)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>150,789</u>
CHANGE IN NET POSITION	<u>(186,747)</u>
NET POSITION BEGINNING OF YEAR	<u>37,759</u>
NET POSITION END OF YEAR	<u><u>\$ (148,988)</u></u>

See accompanying notes to the basic financial statements

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
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	\$ 786,269
Cash Received from Other Operating Sources	4,196
Cash Payments to Employees for Services	(342,593)
Cash Payments for Employee Benefits	(81,049)
Cash Payments to Suppliers for Goods and Services	(452,533)
Other Cash Payments	(36,967)
Net Cash (Used in) Operating Activities	<u>(122,677)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grants	<u>138,507</u>
---------------------------	----------------

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Payments for Capital Assets	(505,022)
Proceeds of Debt	455,548
Interest Paid-Notes Payable	(19,986)
Principal Payments-Notes Payable	(27,560)
Interest Paid-Capital Lease Payable	(457)
Principal Payments-Capital Lease Payable	(338)
Net Cash (Used in) Capital and Related Financing Activities	<u>(97,815)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(81,985)</u>
--	-----------------

CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>86,672</u>
--	---------------

CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 4,687</u>
--	-----------------

**RECONCILIATION OF OPERATING (LOSS) TO NET CASH
(USED IN) OPERATING ACTIVITIES**

Operating (Loss)	\$ (337,536)
------------------	--------------

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED IN OPERATING ACTIVITIES**

Depreciation	15,918
Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources:	
Accounts Payable	13,920
Accrued Wages and Benefits	29,823
Intergovernmental Payable	6,934
Net Pension Liability	293,460
Deferred Outflows	(115,891)
Deferred Inflows	(36,378)
Intergovernmental Receivable	7,073
Net Cash (Used in) Operating Activities	<u>\$ (122,677)</u>

See accompanying notes to the basic financial statements

THIS PAGE INTENTIONALLY LEFT BLANK

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO**

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

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

The Academy was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years from July 1, 2013 through June 30, 2018. The Academy operates under a self-appointing five-member Board of Directors (the Board). The Academy's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility. The facility is staffed with teaching personnel who provide services to 103 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

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

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and 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 total net position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. Revenue resulting from exchange transactions, in which each party gives

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
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 AND BASIS OF ACCOUNTING (Continued)

and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy received value without directly giving equal value in return, such as grants, entitlements, and donations are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

C. BUDGETARY PROCESS

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

D. CASH AND CASH EQUIVALENTS

All cash received by the Academy is maintained in a demand deposit account. The Academy did not have any investments during fiscal year 2016.

E. CAPITAL ASSETS AND DEPRECIATION

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

The capital assets are recorded on the accompanying Statement of Net Position at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method the following useful lives: leasehold land and buildings - 50 years, ICT related fixed assets - 1 to 4 years, and all other type fixed assets - 5 years.

F. INTERGOVERNMENTAL REVENUES

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

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

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INTERGOVERNMENTAL REVENUES (Continued)

Eligibility requirements, include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Amounts awarded under the above programs for the 2016 school year totaled \$950,566.

G. OPERATING REVENUES AND EXPENSES

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

H. NET POSITION

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

I. USE OF ESTIMATES

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

J. 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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes 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 are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 5.

In addition to liabilities, the statement of financial position will sometimes 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 as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position as explained in Note 5.

3. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30 2016, the carrying amount of the Academy's deposits was \$4,687 and the bank balance was \$9,475. Of the bank balance, all was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure, \$0 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

4. RISK MANAGEMENT

Property and Liability - The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy has contracted with the Great American Insurance for property and general liability insurance. The property insurance limits are \$1,000 deductible and \$1,000,000 aggregate. The general liability insurance limits are \$1,000,000 each occurrence and \$2,000,000 aggregate.

Director and Officer - Coverage has been purchased by the Academy with a \$2,000,000 aggregate limit and \$1,000.

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

Settled claims have not exceeded insurance coverage for the past three fiscal years. There has been no significant reduction in insurance coverage from the prior fiscal year.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

5. 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.

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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Plan Description - Academy Employees Retirement System (SERS) (Continued)

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30 or \$86 multiplied by the years of service credit. 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.

C. 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 \$17,335 for fiscal year 2016.

D. 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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Plan Description - State Teachers Retirement System (STRS) (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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Plan Description - State Teachers Retirement System (STRS) (Continued)

Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The contribution requirement of plan members and employers are established and may be amended by the STRS' Retirement Board. 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 \$40,831 for fiscal year 2016.

E. 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>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$611,140	\$158,589	\$769,729
Proportion of the Net Pension Liability	0.00221130%	0.00277930%	
Pension Expense	155,293	44,064	\$199,357

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$27,860	\$2,554	\$30,414
Change in Proportionate Share	423,060	104,642	527,702
Academy contributions subsequent to the measurement date	<u>40,831</u>	<u>17,335</u>	<u>58,166</u>
Total Deferred Outflows of Resources	<u>\$491,751</u>	<u>\$124,531</u>	<u>\$616,282</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$43,952</u>	<u>\$5,255</u>	<u>\$49,207</u>

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

\$58,166 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 fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2017	\$117,585	\$32,610	\$150,195
2018	117,585	32,610	150,195
2019	117,585	32,600	150,185
2020	54,213	4,121	58,334
Total	\$406,968	\$101,941	\$508,909

F. 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 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

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions – SERS (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
	100.00 %	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent

G. 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.

H. 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.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 219,907	\$ 158,589	\$ 106,955

I. 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.

J. 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 increase	2.75 percent at 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:

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

J. Actuarial Assumptions – STRS (Continued)

<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	<u>1.00</u>	3.00
	<u>100.00 %</u>	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent

K. 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.

L. 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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Academy's proportionate share of the net pension liability	\$ 848,918	\$ 611,140	\$ 410,061

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

6. 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, 2015, and 2014 were \$1,495, \$1,481, and \$134, 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 or by calling (888) 227-7877.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

6. POSTEMPLOYMENT BENEFITS (CONTINUED)

B. State Teachers Retirement System (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. 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, 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 \$1,533, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

7. CONTINGENCIES

A. GRANTS

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

B. FULL TIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As a result of the 2015-2016 school year review, the Academy recorded an intergovernmental payable of \$ 6,934 on the accompanying financial statements.

8. FEDERAL TAX STATUS

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

9. SPONSORSHIP FEES

The Academy contracts with Ohio Department of Education to be its sponsor effective July 1, 2013 through June 30, 2018. The contract states "...the annual sponsorship fee to be paid to Ohio Department of Education be set at 3 percent of the State's annual School Foundation support..." The Sponsor is to provide oversight, monitoring, and technical assistance for the Academy. Amount paid to Ohio Department of Education for fiscal year 2016 was \$22,988.

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

10. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2016, follows:

	<u>Balance 6/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
Capital Assets Not Being Depreciated:				
Land	\$ -	\$ 45,235	\$ -	\$ 45,235
Capital Assets Being Depreciated:				
Buildings	-	429,765	-	429,765
Computers & Equipment	12,853	30,022	-	42,875
Total Capital Assets Being Depreciated	<u>12,853</u>	<u>459,787</u>	<u>-</u>	<u>472,640</u>
Less Accumulated Depreciation:				
Buildings	-	(10,744)	-	(10,744)
Computers & Equipment	(4,133)	(5,174)	-	(9,307)
Total Accumulated Depreciation	<u>(4,133)</u>	<u>(15,918)</u>	<u>-</u>	<u>(20,051)</u>
Total Capital Assets, Net	<u>\$ 8,720</u>	<u>\$ 489,104</u>	<u>\$ -</u>	<u>\$ 497,824</u>

11. PURCHASED SERVICES

For the period July 1, 2015 through June 30, 2016, purchased service expenses were for the following services:

	<u>2016</u>
Professional and Technical Services	\$ 113,329
Property Services	83,290
Travel Mileage/Meals	16,356
Communications	12,535
Utilities	61,761
Contracted Trade Services	78,985
Transportation	60,497
	<u>\$ 426,753</u>

12. ACCOUNTS RECEIVABLE AND PREPAID

At June 30, 2016, the Academy had no accounts receivable and had intergovernmental receivables in the amount of \$57,937. Intergovernmental receivables consist of federal assistance (CCIP) which eligibility requirements have been met (earned) at June 30, 2016, but the cash was not received by year end. The Academy also had no prepaid items during fiscal year 2016.

13. ACCOUNTS PAYABLE

At June 30, 2016, the Academy had accounts payable totaling \$16,438 due various vendors during the normal course of conducting operations. Intergovernmental Payable of \$6,934 was recorded as a result of the 2015-2016 FTE audit (see note 7).

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

14. ACCRUED WAGES AND BENEFITS

Accrued wages and benefits were \$55,760 at June 30, 2016 which represents wages, with associated benefits, earned and not paid at June 30, 2016 for certain Academy teachers paid over a 12 month period.

15. LONG-TERM LIABILITIES AND CAPITAL LEASE OBLIGATIONS

A summary of long-term obligation on the mortgage outstanding for land, buildings and improvements at June 30, 2016, is as follows:

	<u>Principal Outstanding 6/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2016</u>	<u>Amounts Due Within one year</u>
Land Contract	\$ -	\$445,000	\$(27,560)	\$ 417,440	\$ 31,562
Copier Lease	-	10,548	(338)	10,210	1,511
Total Long-Term Liabilities	<u>\$ -</u>	<u>\$455,548</u>	<u>\$(27,898)</u>	<u>\$ 427,650</u>	<u>\$ 33,073</u>

Net Pension Liability – See Note 5 for related information.

Land Contract – In July of 2015, the Academy purchased land and improvements at 4415 Dayton-Liberty Road; property and land at 4401 Dayton-Liberty Road from Dixon United Methodist Church, Inc.; and the building at 4401 Dayton-Liberty Road property from Alliance Facilities Management, Inc. The total contract price is \$475,000. The purchase was made using a Land Contract for a total of \$445,000 shall be paid in full on or before September 15, 2018.

Capital Lease - The Academy entered into a capitalized lease for the acquisition of equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefit and risk of ownership to the lessee. This capital lease has been recorded as a capital asset at the present value of the minimum lease payments as of the inception date. The capital lease is recorded as Equipment of \$10,548. The Academy paid \$338 in principal and \$457 in interest for the fiscal year ended June 30, 2016.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 33,074	\$ 24,115	\$ 57,189
2018	35,140	22,049	57,189
2019	355,082	5,918	361,000
2020	2,138	1,042	3,180
2021	2,216	165	2,381
Total	<u>\$ 427,650</u>	<u>\$ 53,289</u>	<u>\$ 480,939</u>

**WATKINS ACADEMY
MONTGOMERY COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

16. CHANGE IN ACCOUNTING PRINCIPLES

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

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

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

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative 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 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all 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.

17. DISSOLUTION OF THE ACADEMY

The Academy suspended operations on June 29, 2017 and was closed effective September 30, 2017.

THIS PAGE INTENTIONALLY LEFT BLANK

**WATKINS ACADEMY
MONTGOMERY COUNTY**

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

	2016	2015
State Teachers Retirement System (STRS)		
Academy's proportion of the net pension liability	0.00221130%	0.00150052%
Academy's proportionate share of the net pension liability	\$ 611,140	\$ 364,979
Academy's covered-employee payroll	\$ 230,714	\$ 193,838
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.89%	188.29%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%
	2016	2015
School Employees Retirement System (SERS)		
Academy's proportion of the net pension liability	0.00277930%	0.00219900%
Academy's proportionate share of the net pension liability	\$ 158,589	\$ 111,290
Academy's covered-employee payroll	\$ 85,038	\$ 64,264
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	186.49%	173.18%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%

(1) Fiscal year 2014 was the Academy's first year of operations.

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

**WATKINS ACADEMY
MONTGOMERY COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
LAST THREE FISCAL YEARS (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
State Teachers Retirement System (STRS)			
Contractually required contribution	\$ 40,831	\$ 32,300	\$ 25,199
Contributions in relation to the contractually required contribution	<u>\$ (40,831)</u>	<u>\$ (32,300)</u>	<u>\$ (25,199)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 291,650	\$ 230,714	\$ 193,838
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%
	<u>2016</u>	<u>2015</u>	<u>2014</u>
School Employees Retirement System (SERS)			
Contractually required contribution	\$ 17,335	\$ 11,208	\$ 8,907
Contributions in relation to the contractually required contribution	<u>\$ (17,335)</u>	<u>\$ (11,208)</u>	<u>\$ (8,907)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 123,821	\$ 85,038	\$ 62,264
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%

(1) Fiscal year 2014 was the Academy's first year of operations.

OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

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

Watkins Academy
Montgomery County
Ohio Department of Education, Sponsor
25 South Front Street
Columbus, Ohio 43215

To Watkins Academy:

We were engaged to audit the financial statements of Watkins Academy, Montgomery County, (the Academy) as of and for the fiscal years ended June 30, 2017 and 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 10, 2021. We did not opine on these financial statements because management did not provide certain written representations required by Auditing Standard Section AU-C Section 580, *Written Representations*. We also noted the Academy closed effective September 30, 2017.

Internal Control Over Financial Reporting

As part of our financial statement engagement, 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2017-005 and 2017-006 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the financial statement. However, opining on compliance with those provisions was not an objective of our engagement and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2017-001 through 2017-004 and 2017-007.

Academy's Responses to Findings

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the Academy's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

May 10, 2021

**WATKINS ACADEMY
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017 AND 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2017-001

Noncompliance / Finding For Recovery – Employee Reimbursements

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

On October 2, 2014, the Academy's Treasurer, Brian Adams, signed check number 1166 to the Academy’s Superintendent, Bobbie Watkins-Tyree, for reimbursement of various expenditures. The reimbursement included an expenditure to Walmart for \$280 for a money order, which was not supported by an invoice and an expenditure to Foys for \$371, which was not supported by an itemized receipt. The total dollar amount of purchases reimbursed did not include adequate support for \$651.

Additionally, the Academy’s Treasurer, Brian Adams, signed check number 1322 dated July 1, 2015 for \$284, check number 1654 dated June 22, 2016 for \$236, and check number 1707 dated July 19, 2016 for \$256 to the Academy’s Superintendent, Bobbie Watkins-Tyree, for reimbursement of per diem expenses incurred while attending conferences. The reimbursements were not supported by itemized receipts. The total dollar amount of reimbursements was \$776, which did not include adequate support.

There was no indication that the Board approved the expenditures to Walmart and Foys. The Board approved the Academy's Superintendent, Bobbie Watkins-Tyree to attend the conferences for which per diem reimbursements were issued; however, there was no approval for the per diem amounts reimbursed in conjunction with the conferences. Additionally, there was no documentation to support that the payments were for a proper public purpose. Without proper supporting documentation, it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The Academy's failure to maintain adequate support for these expenditures could result in a loss of accountability over the Academy's finances, make it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code § 117.28**, a Finding for Recovery for public property converted or misappropriated is hereby issued against Bobbie Watkins-Tyree and in favor of Watkins Academy, in the amount of \$1,427.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure was made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code § 9.39; *State ex rel. Village of Linndale v. Masten*, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. See 1980 Op. Att’y Gen. No. 80-074.

**FINDING NUMBER 2017-001
(Continued)**

Brian Adams, Treasurer, and his bonding company Western Surety Company will be jointly and severally liable in the amount of \$1,427 and in favor of Watkins Academy.

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the findings against the School leader, Ms. Watkins-Tyree, and the School treasurer, Mr. Adams, and cannot provide a substantive response regarding the transaction or reimbursement by the licensed treasurer Mr. Adams, the finding is acknowledged and duly noted. Should Ms. Watkins-Tyree or Mr. Adams become employed by any Department sponsored schools, the Department will closely monitor the school and ensure that all findings for recovery against Ms. Watkins-Tyree and Mr. Adams are resolved prior to their employment with a school.

Treasurer's Response

Mr. Adams surrendered the documents to be audited more than 4 years ago and contends that the necessary records to support payment were given to the AOS at that time.

Auditor of State Conclusion:

The Academy did not provide support for the payments identified in the finding above.

FINDING NUMBER 2017-002

Noncompliance / Finding For Recovery – Debit Card Transactions

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

The Academy's Superintendent, Bobbie Watkins-Tyree, made 204 debit card transactions totaling \$28,633 between July 1, 2014 and January 23, 2017 that could not be supported with underlying supporting documentation and/or were not for a proper public purpose. In addition, \$205 in fees were charged to the Academy as a direct result of the Superintendent's excessive debit card use.

Additionally, the Superintendent used her personal Kroger Plus Card, Dick's Sporting Goods Scorecard, Office Depot Rewards Account, and Staples Rewards Account to make purchases with the Academy's debit card and received loyalty points for these purchases. Such rewards points are property of the Academy and should be remitted back to it.

**FINDING NUMBER 2017-002
(Continued)**

There was no indication that the Board approved these expenditures. Additionally, there was no documentation to support that the payments were otherwise for a proper public purpose. Without proper supporting documentation, it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The Academy's failure to maintain adequate support for these expenditures could result in a loss of accountability over the Academy's finances, make it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose. Additionally, reward program benefits are of such a character as to manifest a substantial and improper influence upon employees with respect to his or her duties. It is foreseeable that a public employee could select a particular vendor from which to make purchases in order to accumulate rewards benefits on their personal rewards card and, by doing so, create a higher expense for their public agency.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code § 117.28**, a Finding for Recovery for public property converted or misappropriated is hereby issued against Bobbie Watkins-Tyree and in favor of Watkins Academy, in the amount of \$28,838.

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the findings against the School leader, Ms. Watkins-Tyree, and cannot provide a substantive response regarding the transactions, the finding is acknowledged and duly noted. The Department, as a Sponsor, requires all schools to adopt a debit card policy that complies with Ohio law and report all transactions using a debit card during the Governing Authority financial committee meetings as well as during board meetings. The Department will continue to closely monitor all sponsored school's policies to ensure compliance with law and ensure that schools are properly reporting financial transactions.

FINDING NUMBER 2017-003

Noncompliance / Finding for Recovery – Late Fees

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

During fiscal years 2017 and 2016 the Academy made twenty-two payments to Dayton Power and Light Company (DP&L) that included late fees which are not considered to be a proper public purpose for a community school. Twenty check payments issued to DP&L were signed by Treasurer Brian Adams and the remaining two payments were made via electronic funds transfers initiated by Treasurer Brian Adams. The Academy paid a total of \$1,026 in late fees to DP&L during fiscal years 2017 and 2016.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code § 117.28**, a Finding for Recovery for public money illegally expended is hereby issued against Brian Adams and in favor of Watkins Academy, in the amount of \$1,026. Brian Adam's bonding company is the Western Surety Company.

The Academy should have implemented policies and procedures to verify that all invoices were paid on or before stated due dates to avoid being charged late fees. Failure to do so could result in the Academy paying unnecessary fees and penalties.

**FINDING NUMBER 2017-003
(Continued)**

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the findings against the School treasurer, Mr. Adams, and cannot provide a substantive response regarding the transaction the finding is acknowledged and duly noted. The Department monitors the fiscal health and late payments of each sponsored schools and has greatly improved our processes and procedures since 2018 and oversight of the financial health of each sponsored school.

Treasurer's Response

The school was very small and had cashflow issues surrounding its enrollment. The Auditor's office has failed to provide an analysis that the school had sufficient cash to pay these bills when they were due.

Auditor of State Conclusion:

As indicated in the finding above, late fees are not considered to be a proper public purpose for a community school. The Academy was responsible for ensuring cash balances were sufficient to pay bills as they were due.

FINDING NUMBER 2017-004

Noncompliance / Finding for Recovery – Sales Tax

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

During fiscal year 2017, the Academy purchased various supplies from Office Depot, A-Z Learning, and Sign Dynamics. Thirteen check payments issued to those vendors were signed by Treasurer Brian Adams and included sales tax which is not considered to be a proper public purpose for a community school. The Academy paid a total of \$605 in sales taxes during fiscal year 2017.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code § 117.28**, a Finding for Recovery for public money illegally expended is hereby issued against Brian Adams and in favor of Watkins Academy, in the amount of \$605. Brian Adam's bonding company is the Western Surety Company.

The Academy should have implemented policies and procedures to verify that all payments made to vendors were exempt from sales tax. Failure to do so could result in the Academy paying sales taxes which they are not legally required to pay.

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the findings against the School treasurer, Mr. Adams, and cannot provide a substantive response regarding the transaction by the licensed treasurer Mr. Adams, the finding is acknowledged and duly noted. The Department will remind sponsored schools regarding sales tax exemptions.

**FINDING NUMBER 2017-004
(Continued)**

Treasurer's Response

The \$605 paid in sales tax to Office Depot, A-Z Learning, and Sign Dynamics was over 13 transactions. No Single Transaction was over the AOS threshold for issuing a finding in the amount of \$500.

Auditor of State Conclusion:

Ohio Rev. Code § 117.28 authorizes the Auditor of State to report a *Finding for Recovery* in audit reports when legal action may be appropriate to recover public money or property. It is the policy of the Auditor of State to consider the amount(s) in question in the aggregate for the audit period when making the determination of whether a Finding for Recovery is appropriate.

FINDING NUMBER 2017-005

Material Weakness – Purchasing Procedures

The Academy did not have a formally approved policy governing purchasing procedures, specifically in relation to approval of expenditures, what determines a proper public purpose for the Academy's business, and what documentation should be maintained to support each expenditure made. There was no indication that the Academy's Board discussed expenditures or approved expenditures during its regular open sessions during fiscal years 2017 and 2016.

The Academy's Superintendent excessively used a debit card for approximately 284 transactions between July 1, 2014 and January 23, 2017 totaling \$67,928. The Academy did not have a formally approved policy regarding debit card usage. There were several debit card expenditures that were of a questionable nature and could possibly be unrelated to the Academy's business. These expenditures are included within finding 2017-002. Supporting documentation for many of the debit card transactions included in finding 2017-002 were not maintained with the Treasurer. Instead, the Academy's Superintendent attempted to obtain supporting receipts as a result of the audit. The transactions were not recorded to the Academy's accounting system until the bank statements were received in the following month.

The failure to maintain, and provide to the Treasurer in a timely manner, adequate supporting documentation for these transactions could result in a loss of accountability over the Academy's finances, making it difficult to identify errors. These errors could go undetected and possibly result in expenditures made that are not for a proper public purpose.

Additionally, the Academy made cash withdrawals totaling \$648 during fiscal year 2015. These withdrawals are also included within finding 2017-002. Due to the nature of cash and its susceptibility to fraud or theft, public entities should never make cash payments to any vendor.

The Academy should establish and approve formal policies and procedures governing purchases and debit card usage. The policy governing the use of a debit card should include authorized users, acceptable uses, supporting documentation required to be obtained, and a discussion of the consequences if the policy is not followed. Whenever possible, the Academy should follow the normal purchasing process, including issuing actual checks processed through the accounting system for products and services purchased.

When situations necessitate the need to use a debit card, the Academy should maintain all supporting documentation and provide it to the Treasurer as soon as possible. The Board should also review and approve a listing of all expenditures at each regular meeting in order to maintain proper oversight over the Academy's expenditures. Additionally, the Academy should never make cash withdrawals to pay vendors.

**FINDING NUMBER 2017-005
(Continued)**

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

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the findings regarding school purchases and cannot provide a substantive response regarding the transactions or reimbursement and the finding is acknowledged and duly noted. The Department has implemented additional monitoring and sponsor oversight since 2018. As a result of new processes and procedures implemented after 2018, the Department monitors the financial health of each sponsored school and requires each sponsored school to develop and follow fiscal controls.

Treasurer's Response

Mr. Adams contends that all related policies and procedures had to be reviewed and approved by the Sponsor.

FINDING NUMBER 2017-006

Material Weakness – Financial Statement Errors

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph.101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The Academy prepared its annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The Academy's annual financial report contained errors which resulted in reclassifications and adjustments to correctly report the Academy's financial activity.

The following errors were identified and resulted in audit adjustments which are reflected within the accompanying financial statements:

- In fiscal years 2017 and 2016, the Academy did not properly calculate net pension liability and related deferred inflows of resources, deferred outflows of resources, and expense for the School Employees Retirement System (SERS) and State Teachers Retirement System (STRS). As a result, deferred outflows of resources: pension requirements were understated by \$229,936, deferred inflows of resources: pension requirements was overstated by \$16,116, fringe benefits expense was overstated by \$366,066, and net position: beginning of year was overstated by \$120,014 in fiscal year 2017. In addition, deferred outflows of resources: pension requirements were overstated by \$92,449, deferred inflows of resources: pension requirements was understated by \$27,565, and fringe benefits expense was understated by \$120,014 in fiscal year 2016.
- At June 30, 2017 and 2016 the Academy did not include non-depreciable capital assets or loans payable in the calculation of net position: net investment in capital assets. As a result, net position: net investment in capital assets was overstated by \$332,529 and \$361,983 at June 30, 2017 and 2016, respectively, and unrestricted net position was understated by the same amount.

**FINDING NUMBER 2017-006
(Continued)**

- The Academy improperly calculated the balance of notes payable at June 30, 2017 and applied the difference as an increase to interest expense. As a result, the Academy overstated notes payable, due within more than one year and nonoperating expenses: interest and fiscal charges by \$5,000 in fiscal year 2017.
- In fiscal year 2016 the Academy recorded the purchase of seven fixed assets to expense rather than recording the assets as capital assets and depreciating them over their useful lives. As a result, depreciable capital assets, net and depreciation expense were understated by \$10,222 and \$321, respectively, and operating expense: purchased services and operating expense: materials and supplies were overstated by \$1,087 and \$9,456, respectively, at June 30, 2016. Further, cash payments to suppliers for goods and services was overstated and cash payments for capital assets was understated by \$10,543 on the Statement of Cash Flows for the Fiscal Year Ended June 30, 2016. Additionally, depreciable capital assets, net was overstated by \$2,109 and depreciation expense were understated by \$2,109 at June 30, 2017.
- In fiscal year 2016, the Academy did not separately disclose proceeds of notes and proceeds of capital lease on the Statement of Cash flows; rather, the Academy used those proceeds to reduce the amount reported as payments for capital assets. As a result, proceeds of debt were understated by \$455,548, respectively, and payments for capital assets were overstated by \$455,548.

Policies and procedures should have been established and implemented to verify the accuracy of amounts reported in the financial statements in accordance with applicable accounting standards. Failure to do so could result in the users of the financial statements basing their conclusions on materially misstated financial data.

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the findings regarding accuracy of the School's treasurer's financial statement and cannot provide a substantive response regarding the transactions or reimbursement and the finding is acknowledged and duly noted. The Department has implemented additional monitoring and sponsor oversight since 2018. As a result of new processes and procedures implemented after 2018, the Department monitors the financial health of each sponsored school, reviews financial records monthly, and requires each sponsored school to develop and follow fiscal controls.

Treasurer's Response

Mr. Adams contends that due to the delay of the release of the FY 16 Audit he did not have the corrected financial statements to prepare the FY 17 statements.

Auditor of State Conclusion:

The Academy's fiscal year 2017 and 2016 statements were audited concurrently as a two-year engagement.

FINDING NUMBER 2017-007

Noncompliance – Failure to Provide Records

Ohio Rev. Code § 149.351(A) states, in part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

FINDING NUMBER 2017-007
(Continued)

The following items were not provided for audit by the Academy:

- Official minutes records for the following meetings:
 - September 1, 2015
 - April 19, 2016
 - May 17, 2016
 - July 19, 2016
 - January 24, 2017
 - February 8, 2017
 - March 21, 2017
 - May 8, 2017
- A Board Member roster, including contact information and employer, for the period under audit.
- A canceled check image for check 2064 issued on June 26, 2017 to Security Central for \$75.
- Invoices from Dayton Power and Light Co for June and August 2016.
- The Form W-4 for one of five employees (20%) selected for payroll testing who did not have Federal income tax withheld from their payroll.
- Employee time sheets for three of twenty-one (14%) employee payroll checks selected for testing in fiscal year 2017 and twenty-two of twenty-two (100%) employee payroll checks selected for testing for fiscal year 2016.
- Employee contracts or salary notices for four of fourteen (29%) employees selected for payroll testing in fiscal year 2017 and ten of sixteen (63%) employees selected for payroll testing in fiscal year 2016.
- State of Ohio Form IT-942 for the second quarter of calendar year 2016.
- Support, including resignation letters and Board approval of terminations and resignations, for employee terminations or resignations for six of six (100%) employees who ended their employment with the Academy during fiscal years 2017 and 2016.
- Hiring authorizations, including contract, position, and pay rate, for two of five (40%) employees hired during fiscal year 2017 and three of five (60%) employees hired during fiscal year 2016.
- Deduction authorizations, including federal, state, and local tax forms and retirement enrollment forms for three of five (60%) employees hired during fiscal year 2016.
- Direct deposit authorization forms for three of five (60%) employees hired during fiscal year 2016.

- Employee pay stubs for the pay period ending July 15, 2016.
- Forms W-2 for calendar year 2016.
- The Academy transferred student files to the students' resident districts after the Academy was closed. Copies of student files were not retained and provided for audit.
- The following policies were noted as approved by the Board during open meetings but not retained by the Academy:
 - Hiring Policy
 - Allergy Policy
 - Early Entry Policy
 - Suspension Policy
 - Food and Beverage Policy
 - Sunshine and Public Policy

The Academy should have implemented policies and procedures to retain all required records. Failure to do so could result in improper transactions going undetected by Academy management and an incomplete audit trail.

**FINDING NUMBER 2017-007
(Continued)**

Sponsor's Response

While the Department, as a Sponsor, did not have a role in the findings regarding the school's destruction of public records and cannot provide a substantive response, the finding is acknowledged and duly noted. The Department has implemented additional monitoring and sponsor oversight since 2018. As a result of new processes and procedures implemented after 2018, the Department requires all schools to attend annual public records trainings and maintain public records at each school building. In addition, the Department collects a copy of each sponsored school's board meeting packets including meeting minutes and school policies as part of its compliance oversight responsibilities.

Treasurer's Response

Mr. Adams surrendered the documents to be audited more than 4 years ago and contends that the necessary records were given to the AOS at that time. Mr. Adams denies that he was involved in any destruction of public records. He contends that, due to the termination of the school, the records must have been lost. When the school closed, ODE had multiple staff members and contractors handling the schools' records before asking Mr. Adams to come back and assist with the final audit. When Mr. Adams come back to assist the items he had surrounded were not available.

Auditor of State Conclusion:

The Academy did not provide the items identified in the finding above.

This page intentionally left blank.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017 AND 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Material Weakness – Debit Card Expenditures	Not corrected. Repeated as Finding 2017-005	The School closed therefore there is no corrective action plan to correct deficiencies moving forward.
2015-002	Material Weakness – Financial Statement Errors	Not corrected. Repeated as Finding 2017-006	The School closed therefore there is no corrective action plan to correct deficiencies moving forward.
2015-003	Significant Deficiency – Employee Payroll	Not corrected. Opinion Modified for payroll in fiscal years 2016-2017 due to destruction noted in finding 2017-007	The School closed therefore there is no corrective action plan to correct deficiencies moving forward.
2015-004	Noncompliance – Nepotism	Fully Corrected	

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

Independent Accountants' Report on Applying Agreed-Upon Procedures

Watkins Academy
Montgomery County
Ohio Department of Education, Sponsor
25 South Front Street
Columbus, Ohio 43215

To Watkins Academy:

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

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Watkins Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 and Ohio Rev. Code Section 3314.03(a)(11)(d) for the period ended June 30, 2017 and 2016. Management is responsible for complying with this requirement. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We observed the Board adopted an anti-harassment policy on February 24, 2015. However, this policy did not include all matters required by Ohio Rev. Code 3313.666. The Board did not amend their policy to include matters found to be noncompliant during the previous engagement. We noted the Academy was previously compliant with all requirements, except the items listed below:
 - a. A requirement that the custodial parent or guardian of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident.
 - b. A requirement that the administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended
2. Ohio Rev. Code Section 3313.666(B) and Ohio Rev. Code Section 3314.03(a)(11)(d) specifies the following requirements must be included in anti-harassment policies. We inspected the policy for proper inclusion of these requirements:
 1. A statement prohibiting harassment, intimidation, or bullying of any student on school property, on a school bus, or at school-sponsored events and expressly providing for the possibility of suspension of a student found responsible for harassment, intimidation, or bullying by an electronic act;

2. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666. The act defines that term as “any intentional written, verbal, electronic or physical act that a student has exhibited toward another particular student more than once and the behavior both (1) causes mental or physical harm to the other student, (2) is sufficiently severe, persistent, or pervasive that it creates an intimidating, threatening, or abusive educational environment for the other student,” and violence within a dating relationship.;
3. A procedure for reporting prohibited incidents;
4. A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
5. A requirement that the custodial parent or guardian of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
6. A procedure for documenting any prohibited incident that is reported;
7. A procedure for responding to and investigating any reported incident;
8. A strategy for protecting a victim from new or additional harassment, intimidation, or bullying, and from retaliation following a report, including a means by which a person may report an incident anonymously;
9. A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
10. A statement prohibiting students from deliberately making false reports of harassment, intimidation, or bullying and a disciplinary procedure for any student responsible for deliberately making a false report of that nature;
11. A requirement that the administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended.

This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Watkins Academy
Montgomery County
Independent Accountants' Report on
Applying Agreed-Upon Procedures
Page 3

This report is to provide assistance in the evaluation of whether the Academy has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 and is not suitable for any other purpose.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State
Columbus, Ohio

May 10, 2021

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



WATKINS ACADEMY

MONTGOMERY COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 6/15/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov