

**AKROS MIDDLE SCHOOL  
SUMMIT COUNTY, OHIO**

**AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2015**

***James G. Zupka, CPA, Inc.***  
**Certified Public Accountants**





# Dave Yost • Auditor of State

Board of Directors  
Akros Middle School  
92 North Union Street  
Akron, Ohio 44304

We have reviewed the *Independent Auditor's Report* of the Akros Middle School, Summit County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

March 29, 2016

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**AKROS MIDDLE SCHOOL  
SUMMIT COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**JAMES G. ZUPKA, C.P.A., INC.**  
*Certified Public Accountants*  
5240 East 98<sup>th</sup> Street  
Garfield Hts., Ohio 44125

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**INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board of Directors  
Akros Middle School  
Akron, Ohio

The Honorable Dave Yost  
Auditor of State  
State of Ohio

We have audited the accompanying financial statements of the Akros Middle School, Summit County, Ohio (the School), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Akros Middle School, Ohio, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note C to basic financial statements, the School adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, and restated its net position at June 30, 2014. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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



## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015, on our consideration of the Akros Middle School, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Akros Middle School, Ohio's internal control over financial reporting and compliance.

James G. Zupka, CPA, President  
CPA, President

Digitally signed by James G. Zupka, CPA,  
President  
DN: cn=James G. Zupka, CPA, President,  
o=James G. Zupka, CPA, Inc., ou=Accounting,  
email=jgzcpa@sbcglobal.net, c=US  
Date: 2015.12.31 12:04:10 -05'00'

James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 18, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### AKROS MIDDLE SCHOOL

YEAR ENDED JUNE 30, 2015

The discussion and analysis of the Akros Middle School's (the School) financial performance provides an overall review of the Academy's financial activities for the fiscal years ended June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

### **Financial Highlights**

- In total, net position increased by \$55,015 which represents a 3.3% increase from 2014. The increase in net position during 2015 is mainly attributed to an increase in enrollment, which leads to higher foundation payments, an increase of \$109,234 or 11.1% from 2014, offset by increased costs associated with increased students.
- Total assets increased by \$23,686 which represents a 18.1% increase from 2014. The increase of total assets as of June 30, 2015, as compared to prior year is primarily due to an increase in cash and cash equivalents, partially offset by decrease in capital assets net of accumulated depreciation in the current year.
- Total liabilities decreased by \$266,432, which represents a 14.3% from 2014. The decrease in total liabilities as of June 30, 2015 is mainly due to payment net pension liability.

### **Using this Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The School uses the enterprise presentation for all of its activities.

### **Statement of Net Position**

The Statement of Net Position answers the question of how the School did financially during 2015. The statement include assets, deferred outflows of resources, liabilities, deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

AKROS MIDDLE SCHOOL

YEAR ENDED JUNE 30, 2015

The table below provides a summary of the School's net position for fiscal year 2015.

		<b>Net Position</b>	
		<u>2015</u>	<u>Restated 2014</u>
<u>ASSETS</u>			
Current assets		\$ 84,464	\$ 40,463
Capital assets, net		69,480	89,795
Other assets		374	374
	TOTAL ASSETS	<u>154,318</u>	<u>130,632</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pensions		<u>109,668</u>	<u>85,813</u>
<u>LIABILITIES</u>			
Current liabilities		88,529	81,483
Long-term liabilities		1,512,177	1,785,655
	TOTAL LIABILITIES	<u>1,600,706</u>	<u>1,867,138</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pensions		<u>258,958</u>	<u>0</u>
<u>NET POSITION</u>			
Net Investment ini capital assets		69,480	89,795
Unrestricted		<u>(1,665,158)</u>	<u>(1,740,488)</u>
	TOTAL NET POSITION	<u>(1,595,678)</u>	<u>(1,650,693)</u>

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED

AKROS MIDDLE SCHOOL

YEAR ENDED JUNE 30, 2015

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

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" - that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law.

The employer enters into the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from (\$73,148) to (\$1,650,693).

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

AKROS MIDDLE SCHOOL

YEAR ENDED JUNE 30, 2015

**Statements of Revenues, Expenses and Changes in Net Position**

The table that follows shows the change in net position for fiscal year 2015, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, as a whole, the financial position of the School 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.

	2015	2014
<b>Change in Net Position</b>		
<u>OPERATING REVENUES</u>		
Foundation Payments	\$ 1,091,040	\$ 981,806
Other	10,453	32,158
TOTAL OPERATING REVENUES	<u>1,101,493</u>	<u>1,013,964</u>
<u>OPERATING EXPENSES</u>		
Salaries	725,583	704,091
Pension Expense	66,698	64,962
Insurance	3,915	12,432
Rent	136,400	136,400
Purchased services	122,772	183,315
Material and supplies	131,924	35,247
Utilities	29,220	33,593
Depreciation	20,315	20,300
Other operating expenses	40,028	42,108
TOTAL OPERATING EXPENSES	<u>1,276,855</u>	<u>1,232,448</u>
<u>NON-OPERATING REVENUES</u>		
State and federal grants	224,344	165,385
Investment Income	13	76
Other	6,020	0
TOTAL NON-OPERATING REVENUES	<u>230,377</u>	<u>165,461</u>
CHANGE IN NET POSITION	<u>\$ 55,015</u>	<u>\$ (53,023)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

AKROS MIDDLE SCHOOL

YEAR ENDED JUNE 30, 2015

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of \$85,813 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$66,698. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 expenses under GASB 68	\$ 1,276,855
Pension expense under GASB 68	(66,698)
2015 contractually required contribution	<u>96,330</u>
Adjusted 2015 expenses	1,306,487
Total 2014 expenses under GASB 27	<u>(1,232,448)</u>
Increase in expenses not related to pension	<u>\$ 74,039</u>

Total expenditures not related to pension increased from 2014 which was mainly due to the increase staff required.

**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 Revised Code Chapter 5705, unless specifically provided in the community school's contract with its Sponsor. The contract between the School and the sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the School.

**Capital Assets**

At the end of fiscal year 2015, the School had \$69,480, invested in computers and software, furniture and equipment, land improvements and leasehold improvements (net of depreciation). The table below shows the Capital Assets by category.

<b>Capital Assets (Net of Depreciation)</b>		
	<u>2015</u>	<u>2014</u>
Computer Equipment	\$ 133	\$ 1,011
Furniture and equipment	8,826	24,380
Land improvements	2,309	2,462
Leasehold improvement	<u>58,212</u>	<u>61,942</u>
	<u>\$ 69,480</u>	<u>\$ 89,795</u>

For more information on capital assets, see Note B in the Notes to the Basic Financial Statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED

AKROS MIDDLE SCHOOL

YEAR ENDED JUNE 30, 2015

### **Current Financial Issues**

The School received revenue for 131 students in 2015 and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$8,329 in fiscal year 2015 and it is expected to remain the same in State Basic Aid planned in fiscal year 2016. The School anticipates receiving federal title grants in future school years.

The School contracted with the St. Aloysius Orphanage as its sponsor. State law allows sponsors to assess the schools up to 3% of State revenues as an oversight fee, a cost that was not incurred through the sponsorship by ODE. St. Aloysius Orphanage charged 3% of State Aid to be paid by the School for fiscal year 2015.

### **Contacting the School's Financial Management**

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Chris Perin, Finance Director for the Akros Middle School, 265 Park Street, Akron, Ohio 44304 or e-mail at [perin@akros4kids.org](mailto:perin@akros4kids.org).

STATEMENT OF NET POSITION

AKROS MIDDLE SCHOOL

JUNE 30, 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 84,464
TOTAL CURRENT ASSETS	<u>84,464</u>

PROPERTY AND EQUIPMENT

Computer equipment	4,394
Furniture and equipment	77,767
Land improvements	3,062
Leasehold improvements	74,595
	<u>159,818</u>
Less: accumulated depreciation	(90,338)
TOTAL PROPERTY AND EQUIPMENT, NET	<u>69,480</u>

OTHER ASSETS

Deposits	374
TOTAL ASSETS	<u>154,318</u>

DEFERRED OUTFLOWS OF RESOURCES

Pensions	<u>109,668</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	14,580
Accrued wages and benefits	63,903
Due to related parties	1,303
Current portion of long-term debt	8,743
TOTAL CURRENT LIABILITIES	<u>88,529</u>

LONG-TERM LIABILITIES

Net pension liability	1,398,623
Note payable - related party	113,554
TOTAL LONG-TERM LIABILITIES	<u>1,512,177</u>

TOTAL LIABILITIES	<u>1,600,706</u>
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DEFERRED INFLOWS OF RESOURCES

Pensions	<u>258,958</u>
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NET POSITION

Investment in capital assets	69,480
Unrestricted net position	(1,665,158)
TOTAL NET POSITION	<u>\$ (1,595,678)</u>

See accompanying notes to the basic financial statements.



STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION

AKROS MIDDLE SCHOOL

YEAR ENDED JUNE 30, 2015

OPERATING REVENUES

Foundation payments	\$ 1,091,040
Other	10,453
	<hr/>
TOTAL OPERATING REVENUES	1,101,493

OPERATING EXPENSES

Salaries	725,583
Retirement	66,698
Insurance	3,915
Rent	136,400
Purchased services	122,772
Materials and supplies	131,924
Utilities	29,220
Depreciation	20,315
Other operating expenses	40,028
	<hr/>
TOTAL OPERATING EXPENSES	1,276,855
	<hr/>
OPERATING LOSS	(175,362)

NON-OPERATING REVENUES

State and federal grants	224,344
Investment income	13
Other income	6,020
	<hr/>
	230,377
	<hr/>
CHANGE IN NET POSITION	55,015
	<hr/>
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	(1,650,693)
	<hr/>
NET POSITION AT END OF YEAR	\$ (1,595,678)

See accompanying notes to the basic financial statements.

STATEMENT OF CASH FLOWS

AKROS MIDDLE SCHOOL

YEAR ENDED JUNE 30, 2015

Cash flows from operating activities:		
Cash received from State of Ohio		\$ 1,101,652
Cash payments to employees for services and benefits		(812,665)
Cash payments to suppliers for goods and services		(426,729)
Cash payments for other operating expenses		(40,028)
Other operating revenues		10,453
	Net cash used in operating activities	<u>(167,317)</u>
Cash flows from noncapital financing activities:		
State and federal grants		224,344
Investment income		13
Other income		6,020
	Net cash provided by noncapital financing activities	<u>230,377</u>
Cash flows from capital and related financing activities:		
Cash payments for debt		(8,447)
	Net cash used in capital and related financing activities	<u>(8,447)</u>
	Net increase in cash and cash equivalents	54,613
	Cash and cash equivalents at beginning of year	<u>29,851</u>
	Cash and cash equivalents at end of year	<u>\$ 84,464</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss		\$ (175,362)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation		20,315
(Increase) decrease in assets and deferred outflows of resources:		
State and federal grants receivable		10,612
Deferred outflows of resources		(23,855)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable		(6,413)
Accrued wages and benefits		13,163
Net pension liability		(264,735)
Deferred inflows of resources		258,958
	Total adjustments	<u>8,045</u>
	Net cash used in operating activities	<u>\$ (167,317)</u>

See accompanying notes to the basic financial statements.

## NOTES TO FINANCIAL STATEMENTS

### AKROS MIDDLE SCHOOL

JUNE 30, 2015

#### NOTE A – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Akros Middle School (the School) is a not-for-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to educate students in grades six through eight. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

On June 30, 2015, the School renewed the contract with St. Aloysius (Sponsor) for a term of one year and the contract will automatically be renewed for one year terms through June 30, 2020 due to the status of the sponsorship agreement between the Ohio Department of Education (ODE) and the Sponsor. During this agreement, if the Sponsor is granted a seven year term with the ODE, the term will be renegotiated.

The School operates under the direction of a self-appointing, five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's one instructional/support facility staffed by 2 non-certified and 13 certified full-time teaching personnel and 4 certified teaching, personnel shared 60% with Edge Learning, Inc. (a related party) who provides services to approximately 131 students.

#### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) 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 following are the most significant of the School's accounting policies.

**Basis of Presentation:** Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

**Measurement Focus and Basis of Accounting:** The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

Basis of accounting refers to when revenues and expenses are recognized in the financial records and reported in the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

**Budgetary Process:** Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with the sponsor. The contract between the School and the sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the School.

**Cash:** Cash held by the School is reflected as "cash and cash equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statements 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. The deferred outflows of resources related to pension are explained in Note G.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. The deferred inflows of resources related to pension are explained in Note G.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

**Property and Equipment:** Property and equipment are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School maintains a capitalization threshold of \$1,000, while repairs are charged to expense. The School does not possess any infrastructure and does not capitalize interest costs.

Depreciation of computer equipment, furniture and equipment, land improvements and leasehold improvements is computed using the straight-line method based on estimated useful lives of 5 to 20 years. Depreciation expense for the year ended June 30, 2015 was \$20,315.

	June 30, 2014	Additions	Deletions	June 30, 2015
Capital Assets, being depreciated:				
Computer equipment	\$ 4,394	\$ 0	\$ 0	\$ 4,394
Furniture and equipment	77,767	0	0	77,767
Land improvements	3,062	0	0	3,062
Leasehold improvements	74,595	0	0	74,595
Total Capital Assets, being depreciated	<u>159,818</u>	<u>0</u>	<u>0</u>	<u>159,818</u>
Less Accumulated Depreciation:				
Computer equipment	(3,383)	(879)	0	(4,262)
Furniture and equipment	(53,387)	(15,553)	0	(68,940)
Land improvements	(599)	(153)	0	(752)
Leasehold improvements	(12,654)	(3,730)	0	(16,384)
Total Accumulated Depreciation	<u>(70,023)</u>	<u>(20,315)</u>	<u>0</u>	<u>(90,338)</u>
Total Capital Assets, Net	<u>89,795</u>	<u>(20,315)</u>	<u>0</u>	<u>69,480</u>

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense 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.

**Compensated Absences:** Each employee of the School is entitled to five paid sick days each year. Days not used during the year are not carried over to the following year and the School does not pay employees for unused sick days. Employees of the School do not earn vacation.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

**Purchased Services:** The School purchased services in the amount of \$122,772 for the year ended June 30, 2015.

This includes the following at June 30, 2015:

Bussing and transportation fees	\$	5,141
Professional development		5,772
School psychologist		13,209
Professional and legal		31,798
Maintenance services		27,917
Instructional purchased services		175
Other general services		38,760
	\$	<u>122,772</u>

**Net Position:** Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling of legislation adopted by the School or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

**Intergovernmental Revenue:** The School currently participates in the State Foundation Program, Public Charter School Program, the State Poverty Aid Program, the State Meals Program, the EMIS Subsidy Program, the Food Service Federal Grant Programs, the IDEA Part B Program, Title I and Title II-A. Revenues received from these programs are recognized as non-operating revenues in the accompanying financial statements, with the exception of the State Foundation Program. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided on a reimbursement basis.

**Accrued Liabilities:** The School has recognized certain expenses due but unpaid as of June 30, 2015. These expenses are reported as accrued liabilities in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**Income Taxes:** The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provisions for federal income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for year ended June 30, 2015. The School believes that it has appropriate support for the tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The School’s federal Return of Organization Exempt from Income Tax (Form 990) for 2012, 2013 and 2014 are subject to examination by the IRS, generally for three years after it was filed.

NOTE C - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For fiscal year 2015, the School has implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The aforementioned statements have been implemented and had the following effect on net position as reported June 30, 2014:

Net position June 30, 2014	\$ (73,148)
Adjustments	
Net Pension Liability	(1,663,358)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>85,813</u>
Restated Net Position June 30, 2014	<u><u>\$ (1,650,693)</u></u>

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

## NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

### NOTE D—DEPOSITS AND INVESTMENTS

**Deposits:** At June 30, 2015, the carrying amounts of the School's deposits were \$84,464, and the bank balances were \$86,559. The bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. There were no balances in excess of the insured amounts as of June 30, 2015.

**Custodial Credit Risk:** Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end June 30, 2015; 100% of the School's bank balance was insured and collateralized.

### NOTE E—STATE AND FEDERAL GRANTS RECEIVABLE

All state and federal grants are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. There were no receivables at June 30, 2015.

### NOTE F—RISK MANAGEMENT

**Property and Liability:** The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2015, the School contracted with Philadelphia Indemnity Insurance Companies for property and general liability insurance with a \$3,000,000 aggregate limit. Settled claims did not exceed insurance coverage in any of the past years.

**Workers' Compensation:** The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**Employee Medical, Dental, and Vision Benefits:** The School has contracted with a private carrier to provide its full-time salaried employees medical/surgical benefits and life insurance. The School paid premiums, up to \$771 per month per employee, for this coverage.



NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE G—DEFINED BENEFIT PENSION PLANS

*Net Pension Liability*

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

The net pension liability represents the School'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 School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School 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.

## NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

### NOTE G—DEFINED BENEFIT PENSION PLANS - CONTINUED

#### **School Employees Retirement System**

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org), under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2015, 13.18% of annual covered salary was the portion used to fund pension obligations.

The remaining 0.82% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2015, was \$28,953; 100% has been contributed for fiscal year 2015.

#### **State Teachers Retirement System of Ohio**

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE G—DEFINED BENEFIT PENSION PLANS - CONTINUED

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE G—DEFINED BENEFIT PENSION PLANS - CONTINUED

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School’s required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2015 was \$67,377, 100% has been contributed for fiscal year 2015.

*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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$165,139	\$1,233,484	\$1,398,623
Proportion of the Net Pension Liability	0.003263%	0.00507117%	
Pension Expense	\$9,712	\$56,986	\$66,698

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE G – DEFINED BENEFIT PENSION PLANS – CONTINUED

At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$1,406	\$11,875	\$13,281
Difference between School contributions and proportionate share of contributions	57	0	57
School contributions subsequent to the measurement date	<u>28,953</u>	<u>67,377</u>	<u>96,330</u>
Total Deferred Outflows of Resources	<u>\$30,416</u>	<u>\$79,252</u>	<u>\$109,668</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$26,802	\$228,199	\$255,001
Difference between School contributions and proportionate share of contributions	<u>0</u>	<u>3,957</u>	<u>3,957</u>
Total Deferred Inflows of Resources	<u>\$26,802</u>	<u>\$232,156</u>	<u>\$258,958</u>

\$96,330 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	\$6,346	\$55,070	\$61,416
2017	6,346	55,070	61,416
2018	6,346	55,070	61,416
2019	<u>6,301</u>	<u>55,071</u>	<u>61,372</u>
Total	<u>\$25,339</u>	<u>\$220,281</u>	<u>\$245,620</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE G – DEFINED BENEFIT PENSION PLANS – CONTINUED

*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, 2014, 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

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.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE G—DEFINED BENEFIT PENSION PLANS - CONTINUED

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted 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:

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

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

**Sensitivity of the School'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.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE G—DEFINED BENEFIT PENSION PLANS - CONTINUED

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
The School's proportionate share of the net pension liability	\$ 235,604	\$ 165,139	\$ 105,871

*Actuarial Assumptions - STRS*

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, 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:

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



NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE G—DEFINED BENEFIT PENSION PLANS - CONTINUED

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

**Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School'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 School'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%)
The School's proportionate share of the net pension liability	\$ 1,765,877	\$ 1,233,484	\$ 783,272

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2015, there were no members of the governing board that elected Social Security.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE H—POST EMPLOYMENT BENEFITS

**School Employees Retirement System**

Plan Description - The School participates in two costs sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS at 300 East Broad Street, Suite 100, Columbus, OH 43215-3746. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401(h). For 2015, 0.82% of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2015, this amount was \$20,450. During the fiscal year ending June 30, 2015 the School paid no surcharge.

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.

The School's contributions for health care for the fiscal year ended June 30, 2015 was \$1,801; 100% has been contributed for fiscal year 2015.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE H—POST EMPLOYMENT BENEFITS—CONTINUED

**State Teachers Retirement System**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2015, STRS Ohio allocated employer contributions equal to 0% of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal year ended June 30, 2015 was \$0; 100% has been contributed for fiscal year 2015.

NOTE I—CONTINGENCIES

**Grants:** The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2015.

**Enrollment FTE:** 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 conclusion of this review could result in state funding being adjusted. For fiscal year 2015, these reviews resulted in no adjustments. This 2015 amount is reflected as State and Federal grants receivable on the School's statement of net position and will be included in the School's future foundation settlements.

**Litigation:** The School is party to legal proceedings. The School is of the opinion that the ultimate disposition of claims will not have a material effect on the financial condition of the School.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE J - LONG-TERM LIABILITIES

Long-term liabilities consist of the following at June 30, 2015:

Note Payable, Charter Development Foundation, Inc.: to cover start up payroll in FY2011, payable in monthly installments of \$1,068, including interest at 3.5% per annum. Final payment is due January 1, 2027.	\$ 122,297
Less current maturities	<u>(8,743)</u>
	<u>\$ 113,554</u>

Aggregate maturities of long-term debt at June 30, 2015, are as follows:

2016	\$ 8,743
2017	9,050
2018	9,366
2019	9,694
2020	10,033
Thereafter	<u>75,411</u>
	<u>\$ 122,297</u>

NOTE K—RENTAL AGREEMENT

As of July 1, 2013, the School entered into a three-year lease with Charter Development Foundation, Inc. (a related party) for the use of classrooms and office space. Annual rent for the use of these facilities is \$136,400 payable in monthly installments of \$11,367. The School is responsible for paying all taxes, utilities and maintenance costs. As of July 1, 2015, the School entered into a new three-year lease with Charter Development Foundation, Inc. (a related party) for the use of classrooms and office space. Annual rent for the use of these facilities is \$142,606 payable in monthly installments of \$11,884. Total rent expense was \$136,400 for the year ended June 30, 2015.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

JUNE 30, 2015

NOTE K – RENTAL AGREEMENT – CONTINUED

Future minimum payments as of June 30, 2015 are as follows:

2016	\$ 142,606
2017	142,606
2018	142,606
	<u>\$ 427,818</u>

NOTE L – RELATED PARTY TRANSACTIONS

The School has a lease with Charter Development Foundation, Inc., a not-for-profit organization established and managed by the developer of the school (See Note K).

The School has a due to related party, Edge Learning, Inc., the payable of \$1,303 resulted from Edge Learning, Inc. paying shared expenses for the School during fiscal year ended June 30, 2015.

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REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 SCHOOL EMPLOYEE RETIREMENT SYSTEM OF OHIO

AKROS MIDDLE SCHOOL

LAST TWO FISCAL YEARS (1)

	2014	2013
School District's Proportion of the Net Pension Liability	0.003263%	0.003263%
School District's Proportionate Share of the Net Pension Liability	\$ 165,139	\$ 194,040
School District's Covered-Employee Payroll	\$ 95,772	\$ 90,925
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	172.43%	213.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 STATE TEACHERS RETIREMENT SYSTEM OF OHIO

AKROS MIDDLE SCHOOL

LAST TWO FISCAL YEARS (1)

	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.00507117%	0.00507117%
School District's Proportionate Share of the Net Pension Liability	\$ 1,233,484	\$ 1,469,318
School District's Covered-Employee Payroll	\$ 557,992	\$ 338,146
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	221.06%	434.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

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



REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
 SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

AKROS MIDDLE SCHOOL

LAST FIVE FISCAL YEARS (1)

	2015	2014	2013	2012	2011
Contractually Required Contribution	\$ 28,953	\$ 13,274	\$ 12,584	\$ 2,936	\$ 1,774
Contributions in Relation to the Contractually Required Contribution	(28,953)	(13,274)	(12,584)	(2,936)	(1,774)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
School District Covered-Employee Payroll	\$ 219,674	\$ 95,772	\$ 90,925	\$ 21,829	\$ 14,113
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%	12.57%

(1) The School began operations for the 2011 fiscal year

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
 STATE TEACHERS RETIREMENT SYSTEM OF OHIO

AKROS MIDDLE SCHOOL

LAST FIVE FISCAL YEARS (1)

	2015	2014	2013	2012	2011
Contractually Required Contribution	\$ 67,377	\$ 72,539	\$ 43,959	\$ 80,188	\$ 40,420
Contributions in Relation to the Contractually Required Contribution	<u>(67,377)</u>	<u>(72,539)</u>	<u>(43,959)</u>	<u>(80,188)</u>	<u>(40,420)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered-Employee Payroll	\$ 481,264	\$ 557,992	\$ 338,146	\$ 616,831	\$ 310,923
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%	13.00%	13.00%

(1) The School began operations for the 2011 fiscal year

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**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Members of the Board of Directors  
Akros Middle School  
Akron, Ohio

The Honorable Dave Yost  
Auditor of State  
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Akros Middle School, Summit County, Ohio (the School), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Akros Middle School, Ohio's basic financial statements and have issued our report thereon dated December 18, 2015, wherein we noted that the School adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, and restated its net position at June 30, 2014.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of This Report**

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

James G. Zupka,  
CPA, President

Digitally signed by James G. Zupka, CPA, President  
DN: cn=James G. Zupka, CPA, President, o=James G.  
Zupka, CPA, Inc., ou=Accounting,  
email=jgzcpa@sbcglobal.net, c=US  
Date: 2015.12.31 12:05:26 -0500

James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 18, 2015

**AKROS MIDDLE SCHOOL  
SUMMIT COUNTY, OHIO  
SCHEDULE OF PRIOR CITATIONS AND RECOMMENDATIONS  
JUNE 30, 2015**

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The prior audit report, as of June 30, 2014, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

**JAMES G. ZUPKA, C.P.A., INC.**  
*Certified Public Accountants*  
5240 East 98<sup>th</sup> Street  
Garfield Hts., Ohio 44125

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**INDEPENDENT AUDITOR'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

Board of Directors  
Akros Middle School  
Akron, Ohio

To the Board of Education:

Ohio Revised 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 the Akros Middle School (the School), Summit County, Ohio, has updated its anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. As of our report date of December 18, 2015, the School's anti-harassment policy did not include the following requirements from Ohio Revised Code Section 3313.666(B):
  - a. A procedure for documenting any prohibited incident that is reported;
  - b. A requirement that the School administration semi-annually provide the President of the School Board a written summary of all reported incidents and post the summary on its web site. If the School 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. Section 1232g, as amended.
2. We noted that the School did not amend its anti-harassment policy to prohibit harassment, intimidation, or bullying on a school bus. We also noted that the policy did not include the electronic form and violence within a dating relationship within its definition of harassment, intimidation, or bullying. Ohio Revised Code Section 3313.666 required the School to amend its definition by September 28, 2010.

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

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

James G. Zupka,  
CPA, President

Digitally signed by James G. Zupka, CPA,  
President  
DN: cn=James G. Zupka, CPA, President,  
o=James G. Zupka, CPA, Inc.,  
ou=Accounting,  
email=jgzcpa@ibcglobal.net, c=US  
Date: 2015.12.31 12:06:07 -05'00'

James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 18, 2015





# Dave Yost • Auditor of State

**AKROS MIDDLE SCHOOL**

**SUMMIT COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 12, 2016**