NEW DAY ACADEMY BOARDING AND DAY SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

Dave Yost • Auditor of State

NEW DAY ACADEMY BOARDING AND DAY SCHOOL
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

New Day Academy Boarding and Day School
Cuyahoga County
291 East 222nd Street
Euclid, Ohio 44123

To the Board of Directors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of New Day Academy Boarding and Day School, Cuyahoga County, Ohio, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

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 November 9, 2016, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

November 9, 2016

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The discussion and analysis of New Day Academy Boarding & Day School's (the Academy), financial performance provides an overall review of the Academy's financial activities for the fiscal year 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 notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- In total, net position decreased by $188,337.
- Total assets decreased $180,588. Cash and cash equivalents decreased $221,400. Accounts Receivable decreased $6,771. Capital Assets increased $47,583.
- Total liabilities decreased $395,925. Accounts Payable increased $29,653. Accrued wages and benefits decreased $35,032.

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.

Statement of Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, answer the question, "How did we do financially during 2015?" These statements include all assets, liabilities, revenues and expenses, both financial and capital, 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.

Table 1 provides a summary of the Academy's net position for fiscal year 2015 and fiscal year 2014:

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Table 1
Net Position

	2015	2014 - Restated
Assets		
Current Assets	($19,437)	$208,734
Capital Assets, Net	81,298	33,715
Total Assets	61,861	242,449
Deferred Outflows of Resources		
Pension	176,559	147,173
Total Deferred Outlfows of Resources	176,559	147,173
Liabilities		
Non-current Liabilities	2,434,615	2,840,730
Other Liabilities	156,023	145,833
Total Liabilities	2,590,638	2,986,563
Deferred Inflows of Resources		
Pension	433,060	0
Total Deferred Inflows of Resources	433,060	0
Net Position		
Net Investment in Capital Assets	12,473	17,837
Restricted	47,251	27,427
Unrestricted	(2,845,002)	(2,642,205)
Total Net Position	($2,785,278)	($2,596,941)

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 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.

As a result of implementing GASB 68, the Academy 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 $80,738 to $(2,596,941).

Net Position decreased by $188,337, which is mainly due to the decrease in current assets. Total Net Position decreased mainly due to a decrease in Cash and Cash Equivalents. Over time, net position can serve as a useful indicator of financial position. At June 30, 2015, the Academy's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $2,785,278.

Table 2 shows the changes in net position for fiscal year 2015 and fiscal year 2014, as well as a listing of revenues and expenses.

Table 2
Changes in Net Position

	2015	2014-Restated
Operating Revenues		
Foundation Payments	$1,341,668	$1,755,124
Student Fees	5,900	12,804
Other	42,134	32,902
Total Operating Revenues	1,389,702	1,800,830
Operating Expenses		
Salaries	912,329	1,051,707
Fringe Benefits	211,440	264,231
Purchased Services	627,861	750,263
Supplies and Materials	31,595	77,361
Depreciation	39,033	12,066
Other	54,024	73,929
Total Operating Expenses	1,876,282	2,229,557
Operating income (loss)	(486,580)	(428,727)
Non-Operating Revenue and Expenses		
Federal & State Grants	405,415	468,764
Food Service Expense	(96,906)	(134,386)
Interest (Expense)	(10,276)	(1,769)
Investment Earnings	10	20
Total Non-Operating Revenues and Expenses	298,243	332,629
Change in Net Position	(188,337)	(96,098)
Net Position Beginning of Year, Restated	(2,596,941)	N/A
Net Position End of Year	($2,785,278)	($2,596,941)

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 $147,173 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 expenses of $114,183. Consequently, in order to compare 2015 total expenses to 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 68	$1,876,282
Pension expenses under GASB 68	(114,183)
2015 contractually required contributions	154,002
Adjusted 2015 operating expenses	1,916,101
Total 2014 operating expenses under GASB 27	2,229,557
Decrease in operating expenses not related to pension	($313,456)

Net Position decreased by $188,337. Operating revenues decreased mainly due to a decrease in foundation revenue received by the Academy. Salaries expense decreased mainly due to cutbacks at the Academy and timing on accruals. Fringe Benefits decreased mainly due to the Academy catching up with the SERS arrearage.

Capital Assets

At the end of fiscal year 2015, the Academy had $81,298 invested in Vehicles, Furniture, Fixtures, and Equipment. See Table 3 for details:

Table 3
Capital Assets

	2015	2014
Vehicles, Furniture, Fixtures and Equipment	$81,298	$33,715

For more information on capital assets, see Note 4 to the basic financial statements.

Debt

At fiscal year end, the Academy had $68,825 in capital lease payable, $15,569 due within one year. Table 4 summarizes the capital lease outstanding at year end.

Table 4
Outstanding Debt at Year End

	2015	2014
Capital Lease	$68,825	$15,878

See Note 8 and 9 of the Notes to the Basic Financial Statements for further details on the Academy's long-term obligations.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Sonya Williams, Treasurer, at the New Day Academy Boarding & Day School, 291 East 222nd Street #205, Euclid, Ohio 44123 or email at sjw91969@yahoo.com.

New Day Academy Boarding & Day School
Statement of Net Position
June 30, 2015

Assets:	
Current Assets:	
Cash and Investments	($19,437)
Total Current Assets	(19,437)
Noncurrent Assets:	
Depreciable Capital Assets, Net	81,298
Total Noncurrent Assets	81,298
Total Assets	61,861
Deferred Outflows of Resources:	
Pension	176,559
Total Deferred Outflows of Resources	176,559
Liabilities:	
Current Liabilities:	
Accounts Payable	29,653
Accrued Wages and Benefits	110,801
Liabilities Due Within One Year	15,569
Total Current Liabilities	156,023
Long-Term Liabilities:	
Bonds, Notes & Loans Payable	53,256
Net Pension Liability	2,381,359
Total Liabilities	2,590,638
Deferred Inflows of Resources:	
Pension	433,060
Total Deferred Inflows of Resources	433,060
Net Position:	
Net Investment in Capital Assets	12,473
Restricted	47,251
Unrestricted	(2,845,002)
Total Net Position	($2,785,278)

See accompanying notes to the basic financial statements.

New Day Academy Boarding & Day School
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Operating Revenues:	
Foundation Payments	$1,341,668
Student Fees	5,900
Other Operating Revenues	42,134
Total Operating Revenues	1,389,702
Operating Expenses:	
Salaries	912,329
Fringe Benefits	211,440
Purchased Services	627,861
Materials and Supplies	31,595
Depreciation	39,033
Other	54,024
Total Operating Expenses	1,876,282
Operating Income (Loss)	(486,580)
Non-Operating Revenues (Expenses):	
Investment Earnings	10
Interest (Expense)	(10,276)
State and Federal Grants	405,415
Food Service Expense	(96,906)
Total Non-Operating Revenues (Expenses)	298,243
Change in Net Position	(188,337)
Net Position - Beginning of Year, Restated	(2,596,941)
Net Position - End of Year	($2,785,278)

See accompanying notes to the basic financial statements.

New Day Academy Boarding & Day School
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Cash Flows from Operating Activities:	
Cash Received from State Foundation	$1,341,668
Other Operating Cash Receipts	50,805
Cash Payments to Employees for Salaries and Benefits	(1,194,620)
Cash Payments for Materials, Supplies, and Other Services	(629,803)
Cash Payments for Other Expenses	(54,024)
Net Cash Provided (Used) by Operating Activities	(485,974)
Cash Flows from Noncapital Financing Activities:	
Cash Received from State and Federal Grants	405,415
Cash Payments for Food Services	(96,906)
Net Cash Provided (Used) by Noncapital Financing Activities	308,509
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(86,616)
Debt Proceeds	66,160
Debt Principal Payments	(13,213)
Debt Interest Payments	(10,276)
Net Cash Provided (Used) by Capital and Related Financing Activities	(43,945)
Cash Flows from Investing Activities:	
Earnings on Investments	10
Net Cash Provided (Used) by Cash Flows from Investing Activities	10
Net Increase (Decrease) in Cash and Investments	(221,400)
Cash and Investments - Beginning of Year	201,963
Cash and Investments - End of Year	($19,437)
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	($486,580)
Adjustments:	
Depreciation	39,033
Changes in Assets & Liabilities:	
(Increase) Decrease in Receivables	6,771
(Increase) Decrease in Deferred Outflows - Pension	(29,386)
Increase (Decrease) in Accrued Liabilities	(35,032)
Increase (Decrease) in Payables	29,653
Increase (Decrease) in Net Pension Liability	(443,493)
Increase (Decrease) in Deferred Inflows - Pension	433,060
Net Cash Provided (Used) by Operating Activities	($485,974)

See accompanying notes to the basic financial statements.

Note 1 - Description of the Academy

New Day Academy Boarding & Day School (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching services. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may 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 Educational Resources Consultants of Ohio, Inc. for a period commencing July 1, 2013 and ending June 30, 2015. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under a five member self-appointed Board of Trustees. The Academy's Code of Regulations specifies that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the existing Board. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

New Day Academy works with a management company called World Class Community Schools (WCCS). The Academy separated into two locations due to space availability. The other address for New Day Academy is 32114 Vine Street, Willowick, Ohio 44095. During the current fiscal year, students between grades 6 through 12 were located there. The Academy provides transportation, which shuttles some students from one campus to the other.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with the 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 more significant of the Academy's accounting policies are described below.

Basis of Presentation

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

The Academy uses enterprise accounting to maintain its financial records. Enterprise fund reporting focuses on the determination of the change in Net Position, financial position and cash flows.

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. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

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 contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does not prescribe formal budgetary provisions; however, it does prescribe that the Academy's Administrator compares income and expense to actual figures on a regular basis and also prescribes that the board will review and compare expenses and income from reports prepared by the Academy's treasurer on a monthly basis. Under Ohio Revised Code Section 5705.391, the Academy must prepare a five-year funding plan and submit it to the Ohio Superintendent of Public Instruction.

Capital Assets and Depreciation

The Academy maintains a capitalization threshold of one thousand dollars for vehicles, furniture, fixtures and equipment.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not capitalized.

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

Vehicles	4 - 5 years
Furniture, Fixtures and Equipment	3 - 7 years

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or law and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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, represents 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.

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 as an inflow of resources (revenue) until that time.

Operating Revenues and Expenses

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

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.

Estimates

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

Note 3 – Cash and Cash Equivalents

At fiscal year end June 30, 2015, the carrying amount of the Academy's deposits totaled $(19,437). As of June 30, 2015, the entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC).

Investments: The Academy had no investments at June 30, 2015, or during the fiscal year.

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 was:

	Balance 06/30/14	Additions	Deletions	Balance 06/30/15
Furniture, Fixtures and Equipment	$92,101	$0	$0	$92,101
Vehicles	42,000	86,616	0	128,616
Total Capital Assets being Depreciated	134,101	86,616	0	220,717
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	82,086	3,582	0	85,668
Vehicles	18,300	35,451	0	53,751
Total Accumulated Depreciation	100,386	39,033	0	139,419
Total Capital Assets, Net	$33,715	$47,583	$0	$81,298

Note 5 - Risk Management

Property and Liability

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. For fiscal year 2015, the Academy contracted with Liberty Mutual Insurance Company for property and general liability insurance. There is a $500 deductible for the general liability and a $1,000 deductible for property insurance.

There were no significant reductions in insurance coverage from the prior year. Also, there were no settlements that exceeded insurance coverage for the past three fiscal years.

Workers Compensation

The Academy 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.

Note 6 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was $49,524 for fiscal year 2015. Of this amount $5,713 is reported as accrued wages and benefits.

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.

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

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

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

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

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

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

The Academy's contractually required contribution to STRS was $104,478 for fiscal year 2015. Of this amount $30,824 is reported as accrued wages and benefits.

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 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:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$330,429	$2,050,930	$2,381,359
Proportion of the Net Pension Liability	0.00652900%	0.00843190%	
Pension Expense	19,432	94,751	114,183

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$2,812	$19,745	$22,557
Academy contributions subsequent to the measurement date	49,524	104,478	154,002
Total Deferred Outflows of Resources	$52,336	$124,223	$176,559
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$53,630	$379,430	$433,060

$154,002 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	($12,704)	($89,921)	($102,625)
2017	(12,704)	(89,921)	(102,625)
2018	(12,705)	(89,921)	(102,626)
2019	(12,705)	(89,922)	(102,627)
Total	($50,818)	($359,685)	($410,503)

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.

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$471,424	$330,429	$211,840

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:

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$2,936,130	$2,050,930	$1,302,349

Note 7 - Post Employment Benefits

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 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was $20,450. 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 2015, the Academy's surcharge obligation was $0.

The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $2,901, $307, and $293, respectively. For fiscal year 2015, 88 percent has been contributed, with the balance being reported as accrued wages and benefits. The full amount has been contributed for fiscal years 2014 and 2013.

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.

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 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $0, $9,042, and $9,815 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

Note 8 - Long-Term Liabilities

	Beginning Principal Outstanding	Additions	Deletions	Ending Principal Outstanding	Due In One Year
2013 Capital Lease	$15,878	$0	($3,773)	$12,105	$4,058
2015 Capital Lease	0	66,160	(9,440)	56,720	11,511
Net Pension Liability					
STRS	2,436,475	0	(385,545)	2,050,930	0
SERS	388,377	0	(57,948)	330,429	0
Total Net Pension Liability	2,824,852	0	(443,493)	2,381,359	0
Total Long-Term Liabilities	$2,840,730	$66,160	($456,706)	$2,450,184	$15,569

Note 9 - Capital Leases

During 2013, the Academy entered into a vehicle lease for $19,984. The Academy capitalized the vehicle related to the lease. The lease expires in 2018.

The above leases meet the criteria of capital leases as defined by statement of Financial Accounting Standards No. 13 “Accounting for Leases”, which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The gross amount of assets acquired under capital leases is $19,984.

During 2015, the Academy entered into a vehicle lease for $66,160. The Academy capitalized the vehicle related to the lease. The lease expires in 2020.

The above leases meet the criteria of capital leases as defined by statement of Financial Accounting Standards No. 13 “Accounting for Leases”, which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The gross amount of assets acquired under capital leases is $66,160.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

Fiscal Year Ending June 30	
2016	$22,621
2017	22,621
2018	21,773
2019	17,528
2020	1,461
Total Minimum Lease Payments	86,004
Less: Amount Representing Interest	(17,179)
Present Value of Minimum Interest Payments	$68,825

Note 10 – Contingencies

Grants

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

Full Time Equivalency

The Ohio Department of Education conducts an annual review of enrollment data and full-time equivalency (FTE) calculations made by the community school. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. Adjustments to the state funding received during fiscal year 2015 are immaterial and are not reflected in the 2015 financial statements but will be included in the financial activity for fiscal year 2016.

Note 11 – Operating Lease

The Academy is a lessee for a twelve-month building operating lease for the period of July 1, 2014 through June 30, 2015 with the City of Euclid (the lessor). Rent is payable in monthly installments of $4,252 and is due by the fifteenth day of each month. The Academy is also a lessee for a twelve month building operating lease for the period of July 1, 2014 through June 30, 2015 with the Roman Catholic Diocese of Cleveland (the lessor). Rent is payable in monthly installments of approximately $5,313 and is due by the first day of each and every calendar month.

Note 12 - Purchased Services

For the year ended June 30, 2015, the purchased service expenses were comprised of the following:

Professional and Technical Services	$363,934
Property Services	120,979
Travel Mileage/Meeting Expenses	2,266
Communication	41,822
Utilities	15,902
Contracted Craft/Trade Service	82,958
Total Purchased Services	$627,861

Note 13 – Management Company

The Academy contractually engages with World Class Community Schools (WCCS) to the extent permitted by law, to provide the operation management and internal administrative oversight by providing the specific functions relating to the provision of educational services and the management and operation of the Academy. The agreement is good for five academic years, expiring on June 30,

2018. The agreement shall be automatically renewed after the primary term for an additional term of one year and for successive one-year terms thereafter. The Academy paid a management fee of $155,294 and legal fees of $11,050 and Medical, Dental and Vision benefits of $118,465 to WCCS in fiscal year 2015. The Academy joined the WCCC consortium for healthcare benefits in 2014. The Academy's Headmaster; Terrance Walton is married to the WCC's President of Operations; Kinja Walton.

Note 14 – Management Plan to Eliminate Negative Net Position

At June 30, 2015, the Academy had a net position of $(2,785,278), but the Academy has had a negative change in net position of $96,098 for 2014 and a negative change in net position of $188,337. The primary focus of the Administration's plan to improve fiscal performance includes: (1) sustain/grow current student enrollment, (2) continue return-on-investment budgeting, (3) trim expenditures not directly tied to student learning growth and (4) continued focus on process improvements in school operations and instruction. The Board and Administration will continue directing a significant amount of time and energy toward making stronger connections with current Academy families to expand the word about the Academy's high academic performance in an effort to grow future student enrollment. In addition, the financial plan will continue to focus on cutting costs within daily operations through process improvements and spending restrictions after the Academy's instruction program requirements are met.

Note 15 – Change in Accounting Principle and Restatement of Net Position

For fiscal year 2015, the Academy 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 implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

Net position June 30, 2014	$80,738
Adjustments:	
Net Pension Liability	(2,824,852)
Deferred Outflow - Payments Subsequent to Measurement Date	147,173
Restated Net Position June 30, 2014	($2,596,941)

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

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New Day Academy Boarding & Day School
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

	2014	2013
Academy's Proportion of the Net Pension Liability	0.00843190%	0.00843190%
Academy's Proportionate Share of the Net Pension Liability	$2,050,930	$2,436,475
Academy's Covered-Employee Payroll	$934,938	$1,057,046
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	219.37%	230.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) - Information prior to 2013 is not available

New Day Academy Boarding & Day School
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

	2014	2013
Academy's Proportion of the Net Pension Liability	0.006529%	0.006529%
Academy's Proportionate Share of the Net Pension Liability	$330,429	$388,377
Academy's Covered-Employee Payroll	$193,939	$185,029
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	170.38%	209.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) - Information prior to 2013 is not available

New Day Academy Boarding & Day School
Required Supplementary Information
Schedule of Academy Contributions
State Teachers Retirement System of Ohio
Last Nine Fiscal Years (1)

	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	$104,478	$121,542	$137,416	$120,516	$114,102	$81,500	$82,860	$91,544	$47,340
Contributions in Relation to the Contractually Required Contribution	(104,478)	(121,542)	(137,416)	(120,516)	(114,102)	(81,500)	(82,860)	(91,544)	(47,340)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Academy Covered-Employee Payroll	$746,271	$934,938	$1,057,046	$927,046	$877,708	$626,923	$637,385	$704,185	$364,154
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

(1) - Information prior to 2007 is not available

New Day Academy Boarding & Day School
Required Supplementary Information
Schedule of Academy Contributions
School Employees Retirement System of Ohio
Last Nine Fiscal Years (1)

	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	$49,524	$26,880	$25,608	$24,384	$21,072	$27,644	$16,944	$16,002	$5,982
Contributions in Relation to the Contractually Required Contribution	(49,524)	(26,880)	(25,608)	(24,384)	(21,072)	(27,644)	(16,944)	(16,002)	(5,982)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Academy Covered-Employee Payroll	$375,751	$193,939	$185,029	$181,294	$167,637	$204,165	$172,195	$162,953	$56,011
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

(1) - Information prior to 2007 is not available

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

New Day Academy Boarding and Day School
Cuyahoga County
291 East 222nd Street
Euclid, Ohio 44123

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of New Day Academy Boarding and Day Academy, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated November 9, 2016, wherein we noted the Academy adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 2015-001 through 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 determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Academy's Response to Finding

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

November 9, 2016

SCHEDULE OF FINDINGS
JUNE 30, 2015

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

FINDING NUMBER 2015-001

Bank Reconciliations – Material Weakness

A necessary step in the internal control over financial reporting is to determine the accuracy of both the balance of the bank and the balance of cash in the accounting records. The reconciliation process accounts for the differences between the balances appearing on the bank statements and the balance of cash according to the Academy's records.

Bank account reconciliations were not performed on a timely basis during fiscal year 2015. While a review of the Academy's bank balances was performed each month, a bank-to-book reconciliation was not completed for the final third of the fiscal year. A lack of timely reconciliations led to 12 unidentified reconciling items, with a net total of $548, being included on the Academy's June 30, 2015 reconciliation, which resulted in a net unreconciled bank-to-book difference of $348.

Reconciliations should be prepared and reviewed on a timely basis. Without accurate bank reconciliations the Academy has no assurance the cash balances recorded in the Academy's records are correct. Consequently, the Academy may be spending money it does not have available.

We recommend monthly reconciliations be prepared in which the Academy's bank balances are reconciled to its accounting system balance. Reconciling items should be documented, sufficiently supported and maintained on file with each month's reconciliation. These monthly reconciliations should also be reviewed by Board of Directors to monitor the accuracy of such reconciliations. Evidence of such monitoring should be documented as well (i.e. initials and date).

Officials' Response: The Board was aware of the reconciliation issues with the use of the Uniform School Accounting System and continued to have discussion at each meeting throughout fiscal year 2015 on the need to eliminate this concern. The Board decided to purchase an online interactive accounting system, Sage 50. With the purchase of the Sage 50 Accounting System, the issue has been resolved. The Board is able to view the monthly reconciliation of each bank account and request and receive detailed information on any financial transaction.

NEW DAY ACADEMY BOARDING AND DAY SCHOOL
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015

Finding Number	Finding Summary	Status	Additional Information
2014-001	Financial Reporting	Corrective Action Taken and Finding is Fully Corrected	None
2014-002	Bank to Book Reconciliations	Partially Corrected	Bank reconciliations were prepared for the first eight months of fiscal year 2016

Dave Yost • Auditor of State

NEW DAY ACADEMY BOARDING AND DAY SCHOOL

CUYAHOGA 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
DECEMBER 6, 2016

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