



Dave Yost • Auditor of State

**NEW DAY ACADEMY BOARDING AND DAY SCHOOL
CUYAHOGA COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

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, 2016 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Day Academy and Boarding School, Cuyahoga County as of June 30, 2016 and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2017 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

April 20, 2017

**NEW DAY ACADEMY BOARDING & DAY SCHOOL
CUYAHOGA COUNTY MANAGEMENT'S
DISCUSSION AND ANALYSIS FOR THE FISCAL
YEAR ENDED JUNE 30, 2016 (UNAUDITED)**

The discussion and analysis of New Day Academy Boarding & Day School's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- Total assets and deferred outflows increased \$139,275, which represents a 58% increase from the prior year.
- Total liabilities and deferred inflows increased \$140,839, which represents a 5% increase from the prior year.
- Total revenues decreased \$74,525, which represents 4% decrease from the prior year.
- Total expenses decreased \$261,298, which represents 13% decrease from the prior year.
- Total net position decreased \$1,564, which represents less than one percent decrease from the prior year.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity.

Statement of Net Position

The statement of net position answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and deferred outflows and all liabilities and deferred inflows, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the 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. This statement reports the Academy's net position, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the Academy's net position for fiscal year 2016 compared with fiscal year 2015.

(Table 1)
Net Position

| | <u>2016</u> | <u>2015</u> | <u>Change</u> |
|---------------------|---------------|---------------|-----------------|
| Assets | | | |
| Current Assets | \$ 12,262 | \$ (19,437) | \$ 31,699 |
| Capital Assets, Net | <u>59,296</u> | <u>81,298</u> | <u>(22,002)</u> |
| Total Assets | <u>71,558</u> | <u>61,861</u> | <u>9,697</u> |

**NEW DAY ACADEMY BOARDING & DAY SCHOOL
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Deferred Outflows of Resources

| | | | |
|--------------------------------------|----------------|----------------|----------------|
| Pension | <u>306,137</u> | <u>176,559</u> | <u>129,578</u> |
| Total Deferred Outflows of Resources | <u>306,137</u> | <u>176,559</u> | <u>129,578</u> |

Liabilities

| | | | |
|-----------------------|------------------|------------------|-----------------|
| Current Liabilities | 179,676 | 156,023 | 23,653 |
| Long-Term Liabilities | <u>2,365,230</u> | <u>2,434,615</u> | <u>(69,385)</u> |
| Total Liabilities | <u>2,544,906</u> | <u>2,590,638</u> | <u>(45,732)</u> |

Deferred Inflows of Resources

| | | | |
|-------------------------------------|----------------|----------------|----------------|
| Pension | <u>619,631</u> | <u>433,060</u> | <u>186,571</u> |
| Total Deferred Inflows of Resources | <u>619,631</u> | <u>433,060</u> | <u>186,571</u> |

Net Position

| | | | |
|----------------------------------|------------------------------|------------------------------|--------------------------|
| Net Investment in Capital Assets | 6,040 | 12,473 | (6,433) |
| Restricted | 103,524 | 47,251 | 56,273 |
| Unrestricted | <u>(2,896,406)</u> | <u>(2,845,002)</u> | <u>(51,404)</u> |
| Total Net Position | <u><u>\$ (2,786,842)</u></u> | <u><u>\$ (2,785,278)</u></u> | <u><u>\$ (1,564)</u></u> |

The net pension liability (NPL) is the largest single liability reported by the Academy and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." 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

**NEW DAY ACADEMY BOARDING & DAY SCHOOL
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

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.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2016 compared to fiscal year 2015.

(Table 2)
Change in Net Position

| | <u>2016</u> | <u>2015</u> | <u>Change</u> |
|-------------------------------|------------------|------------------|-----------------|
| Operating Revenues | | | |
| Foundation | \$ 1,293,167 | \$1,341,668 | \$ (48,501) |
| Casino | 8,431 | - | 8,431 |
| Student Activities | - | 5,900 | (5,900) |
| Miscellaneous | 66,066 | 42,134 | (23,932) |
| Non-Operating Revenues | | | |
| Federal and State Grants | 352,938 | 405,415 | (52,477) |
| Investment Earnings | - | 10 | (10) |
| Total Revenues | <u>1,720,602</u> | <u>1,795,127</u> | <u>(74,525)</u> |
| Operating Expenses | | | |
| Salaries & Wages | 755,365 | 912,329 | (156,964) |
| Fringe Benefits | 186,771 | 211,440 | (24,669) |
| Purchased Services | 638,398 | 627,861 | 10,537 |
| Material and Supplies | 71,266 | 31,595 | 39,671 |
| Depreciation | 28,440 | 39,033 | (10,593) |
| Miscellaneous | 34,874 | 54,024 | (19,150) |

**NEW DAY ACADEMY BOARDING & DAY SCHOOL
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Non-Operating Expenses

| | | | |
|---------------------------------|-----------------------|-----------------------|-------------------|
| Interest & Fiscal Charges | 7,052 | 10,276 | (3,224) |
| Food Service Expenses | - | 96,906 | (96,906) |
| Total Expenses | <u>1,722,166</u> | <u>1,983,464</u> | <u>(261,298)</u> |
| | | | |
| Change in Net Position | (1,564) | (188,337) | 186,773 |
| Net Position, Beginning of Year | <u>(2,785,278)</u> | <u>(2,596,941)</u> | <u>(188,337)</u> |
| Net Position, End of Year | <u>\$ (2,786,842)</u> | <u>\$ (2,785,278)</u> | <u>\$ (1,564)</u> |

Total revenues decreased \$74,525 during fiscal year 2016. The decrease was the result of decreases in federal and state revenues. Total expenses of the Academy reported for fiscal year 2016 decreased by \$261,298 compared to those reported for the previous fiscal year. The decreases in expenses were due in part to a decrease in salaries and wages, and fringe benefits.

Capital Assets

The Academy has \$59,296 invested in capital assets net of accumulated depreciation. See Table 3 for details:

Table 3
Capital Assets

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Vehicles, Furniture, Fixtures and Equipment | \$59,296 | \$81,298 |

See Note 6 of the notes to the basic financial statements for more detailed information on the Academy's capital asset.

Debt

At June 30, 2016, the Academy has \$53,256 in capitalized leases. Table 4 summarizes the capital lease outstanding at year end.

Table 4
Outstanding Debt at Year End

| | <u>2016</u> | <u>2015</u> |
|---------------|-------------|-------------|
| Capital Lease | \$ 53,256 | \$ 68,825 |

See Notes 13 of the notes to the basic financial statements for more detailed information on the Academy's capitalized leases.

Contacting the Academy

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 swilliams@newday.academy.

**NEW DAY ACADEMY BOARDING AND DAY SCHOOL
CUYAHOGA COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2016**

Assets

Current Assets

| | |
|------------------------------|----------|
| Cash | \$ 8,663 |
| Intergovernmental Receivable | 3,599 |
| Total Current Assets | 12,262 |

Noncurrent Assets

| | |
|---------------------|--------|
| Capital Assets, Net | 59,296 |
| Total Assets | 71,558 |

Deferred Outflows of Resources

| | |
|--------------------------------------|---------|
| Pension | 306,137 |
| Total Deferred Outflows of Resources | 306,137 |

Liabilities

Current Liabilities

| | |
|----------------------------|---------|
| Accounts Payable | 96,087 |
| Accrued Wages and Benefits | 49,944 |
| Intergovernmental Payable | 16,204 |
| Capital Leases Payable | 17,441 |
| Total Current Liabilities | 179,676 |

Long-Term Liabilities

Due in More Than One Year:

| | |
|------------------------------------|-----------|
| Capital Leases Payable | 35,815 |
| Net Pension Liability (See Note 8) | 2,329,415 |
| Total Liabilities | 2,544,906 |

Deferred Inflows of Resources

| | |
|-------------------------------------|---------|
| Pension | 619,631 |
| Total Deferred inflows of Resources | 619,631 |

Net Position

| | |
|----------------------------------|----------------|
| Net Investment in Capital Assets | 6,040 |
| Restricted | 103,524 |
| Unrestricted | (2,896,406) |
| Total Net Position | \$ (2,786,842) |

See the accompanying notes to the financial statements.

**NEW DAY ACADEMY BOARDING AND DAY SCHOOL
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | |
|--|------------------------------|
| Operating Revenues | |
| State Foundation | \$ 1,293,167 |
| Casino | 8,431 |
| Miscellaneous | 66,066 |
| Total Operating Revenues | <u>1,367,664</u> |
| Operating Expenses | |
| Salaries | 755,365 |
| Fringe Benefits | 186,771 |
| Purchased Services | 638,398 |
| Materials & Supplies | 71,266 |
| Miscellaneous | 34,874 |
| Depreciation | 28,440 |
| Total Operating Expenses | <u>1,715,114</u> |
| Operating Loss | (347,450) |
| Non-Operating Revenues / (Expenses) | |
| Federal Grants | 350,839 |
| State Grants | 2,099 |
| Interest & Fiscal Charges | (7,052) |
| Total Non-Operating Revenues / (Expenses) | <u>345,886</u> |
| Change in Net Position | (1,564) |
| Net Position (Deficit) at Beginning of Year | <u>(2,785,278)</u> |
| Net Position (Deficit) at End of Year | <u><u>\$ (2,786,842)</u></u> |

See the accompanying notes to the financial statements.

**NEW DAY ACADEMY BOARDING AND DAY SCHOOL
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Increase (Decrease) In Cash

Cash Flows from Operating Activities

| | |
|--|------------------|
| Cash Received from the State of Ohio | \$ 1,317,802 |
| Cash Received from Other Operating Sources | 66,066 |
| Cash Payments to Employees for Services and Benefits | (1,001,543) |
| Cash Payments to Suppliers for Goods and Services | <u>(678,104)</u> |

Net Cash Used for Operating Activities (295,779)

Cash Flows from Noncapital Financing Activities

| | |
|---|----------------|
| Cash Received from Federal and State Grants | <u>352,938</u> |
|---|----------------|

Net Cash Provided by Noncapital Financing Activities 352,938

Cash Flows from Capital and Related Financing Activities

| | |
|---------------------------------------|----------------|
| Cash Payment for Capital Acquisitions | (6,438) |
| Principal Payment | (15,569) |
| Interest Payment | <u>(7,052)</u> |

Net Cash Used for Capital and Related Financing Activities (29,059)

Net Increase in Cash 28,100

Cash at Beginning of Year (19,437)

Cash at End of Year \$ 8,663

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:

Operating Loss (347,450)

Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:

Depreciation 28,440

Changes in Assets, Deferred Outflows, Liabilities and Deferred Inflows:

Increase in Intergovernmental Receivable (3,599)

Increase in Deferred Outflows (129,578)

Increase in Accounts Payable 66,434

Decrease in Accrued Wages (60,857)

Increase in Intergovernmental Payable 16,204

Decrease in Net Pension Liability (51,944)

Increase in Deferred Inflows 186,571

Total Adjustments 51,671

Net Cash Used for Operating Activities \$ (295,779)

See the accompanying notes to the financial statements.

**NEW DAY ACADEMY BOARDING & DAY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

1. DESCRIPTION OF THE ENTITY

New Day Academy Boarding & Day School, Inc. (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching 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. For fiscal year 2016, the Sponsor renewed its contract with the Academy. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes in net position, financial position and cash flows.

B. Measurement Focus/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 deferred outflows and all liabilities and deferred inflows are included on the statement of net position. Net Position is segregated into net investment in capital assets, restricted components, and unrestricted components.

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 accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are

**NEW DAY ACADEMY BOARDING & DAY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

earned, and expenses are recognized when they are incurred.

C. 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.

D. Cash

All monies received by the Academy are maintained in a demand deposit account. Total cash for all funds is presented as "cash" on the accompanying statement of net position.

E. Estimates

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

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy did not capitalize any interest during the fiscal year. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Depreciation of furniture, fixtures, equipment, vehicles, and capital leases are computed using the straight-line method over the estimated useful life of three to seven years.

Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. The Academy does not have any infrastructure.

G. Intergovernmental Revenues

The Academy currently participates in the State Foundation and Casino Programs. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Amounts received under the above program for the 2016 fiscal year totaled \$1,301,598.

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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Amounts received under the above program for the 2016 fiscal year totaled \$352,938.

H. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2016 are reported as accrued liabilities in the accompanying financial statements. Accrued liabilities totaled \$179,676 at June 30, 2016.

**NEW DAY ACADEMY BOARDING & DAY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Deferred Outflow / Deferred Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 8.

In addition to liabilities, the statement of net position may 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. For the Academy, deferred inflows of resources are reported on the statement of net position for pension.

J. Pensions

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

K. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by any outstanding capital related debt. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2016, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application," GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," GASB Statement No. 79, "Certain External Investment Pools and Pool Participants," and GASB Statement No. 82, "Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73."

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the Academy's fiscal year 2016 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the Academy's financial statements.

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3. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. There is no effect on beginning net position.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Academy's fiscal year 2016 financial statements; however, there was no effect on beginning net position.

4. DEPOSITS

At June 30, 2016, the carrying amount of the Academy's deposits was \$8,663, and the bank balance was \$10,357. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, the Academy's bank balance was covered by the Federal Deposit Insurance Corporation.

5. RECEIVABLES

Receivables at June 30, 2016 primarily consisted of intergovernmental (e.g. foundation and federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

SERS Refund \$3,599

6. CAPITAL ASSETS

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

| | Balance 6/30/2015 | Additions | Deletions | Balance 6/30/2016 |
|------------------------------------|----------------------|--------------------|-------------|----------------------|
| Furniture, Fixtures, and Equipment | \$ 92,101 | \$ - | \$ - | \$ 92,101 |
| Vehicles | 128,616 | 6,438 | - | 135,054 |
| Total Capital Assets | <u>220,717</u> | <u>6,438</u> | <u>-</u> | <u>227,155</u> |
| Less Accumulated Depreciation: | | | | |
| Furniture, Fixtures, and Equipment | (85,668) | (2,144) | - | (87,812) |
| Vehicles | (53,751) | (26,296) | - | (80,047) |
| Total Accumulated Depreciation | <u>(139,419)</u> | <u>(28,440)</u> | <u>-</u> | <u>(167,859)</u> |
| Total Capital Assets, Net | <u>\$ 81,298</u> | <u>\$ (22,002)</u> | <u>\$ -</u> | <u>\$ 59,296</u> |

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7. RISK MANAGEMENT

A. 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 2016, the Academy contracted with Peerless and Netherlands Insurance Companies 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.

B. Workers' Compensation

The Academy paid the State Workers' Compensation System a premium for employee injury coverage during fiscal year 2016. The premium is calculated by multiplying the gross total payroll by a factor that is calculated by the State.

8. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

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8. DEFINED BENEFIT PENSION PLANS (Continued)

School Employees Retirement System (SERS)

Plan Description

The 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 School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The Academy's contractually required contribution to SERS was \$32,851 for fiscal year 2016.

State Teachers Retirement System (STRS)

Plan Description

The 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-

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| |
|---|
| 8. DEFINED BENEFIT PENSION PLANS (Continued) |
|---|

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

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8. DEFINED BENEFIT PENSION PLANS (Continued)

equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$71,653 for fiscal year 2016.

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

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

| | STRS | SERS | Total |
|--|--------------|-------------|--------------|
| Proportionate Share of the Net Pension Liability | \$ 1,817,527 | \$ 511,888 | \$ 2,329,415 |
| Proportion of the Net Pension Liability | 0.00657641% | 0.00897090% | |
| Pension Expense | \$ 42,988 | \$ 66,564 | \$ 109,552 |

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

| | STRS | SERS | Total |
|--|-------------------|-------------------|-------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ 86,114 | \$ 7,456 | \$ 93,570 |
| Changes in proportion | 0 | 108,063 | 108,063 |
| School contributions subsequent to the measurement date | 71,653 | 32,851 | 104,504 |
| Total Deferred Outflows of Resources | \$ 157,767 | \$ 148,370 | \$ 306,137 |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$ 193,337 | \$ 1,918 | \$ 195,255 |
| Changes in proportion | 424,376 | 0 | 424,376 |
| Total Deferred Inflows of Resources | \$ 617,713 | \$ 1,918 | \$ 619,631 |

\$104,504 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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8. DEFINED BENEFIT PENSION PLANS (Continued)

| | STRS | SERS | Total |
|-----------------------------|--------------|------------|--------------|
| Fiscal Year Ending June 30: | | | |
| 2017 | \$ (155,379) | \$ 33,115 | \$ (122,264) |
| 2018 | (155,379) | 33,115 | (122,264) |
| 2019 | (155,381) | 33,085 | (122,296) |
| 2020 | (65,460) | 14,286 | (51,174) |
| | \$ (531,599) | \$ 113,601 | \$ (417,998) |

Actuarial Assumptions - SERS

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

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

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

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

| | |
|--|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

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

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8. DEFINED BENEFIT PENSION PLANS (Continued)

over the baseline inflation rate have been established for each asset class.

The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

Discount Rate

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

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 | \$ 709,805 | \$ 511,888 | \$ 345,226 |

Changes Between Measurement Date and Report Date

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

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8. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - STRS

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

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

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

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

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

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

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

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8. DEFINED BENEFIT PENSION PLANS (Continued)

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net pension liability | \$ 2,524,683 | \$ 1,817,527 | \$ 1,219,522 |

9. 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.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal year 2016, the Academy surcharge obligation was \$2,378.

The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$2,378, \$2,901 and \$307, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

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9. POST-EMPLOYMENT BENEFITS

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 2016, STRS did not allocate any employer contributions to post-employment health care. The Academy’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0 and \$9,042 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

10. PURCHASED SERVICES

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

| | | |
|-------------------------------------|----|---------|
| Professional and Technical Services | \$ | 310,437 |
| Property Services | | 132,444 |
| Travel and Meetings | | 2,495 |
| Utilities | | 59,925 |
| Communications | | 18,277 |
| Contractual Trade Services | | 94,350 |
| Transportation | | 20,470 |
| Total | \$ | 638,398 |

11. SPONSORSHIP AGREEMENT

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. For fiscal year 2016, the Sponsor renewed its contract with the Academy. Sponsorship fees paid in the amount of \$36,598 are reflected as “Purchased Services” in the Statement of Revenues, Expenses, and Change in Net Position.

12. MANAGEMENT COMPANY EXPENSES

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 \$154,473 and legal fees of \$6,800 and Medical, Dental and Vision benefits of \$77,719 to WCCS in 2016. The Academy joined the WCCC

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12. MANAGEMENT COMPANY EXPENSES (Continued)

consortium for healthcare benefits in 2014. The Academy's Headmaster; Terrance Walton is married to the WCC's President of Operations; Kinja Walton.

13. CAPITAL LEASE / LONG-TERM OBLIGATIONS

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. 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 changes in the Academy's long-term obligations during fiscal year 2016 were as follows:

| | Amount Outstanding 6/30/2015 | Additions | Deductions | Amount Outstanding 6/30/2016 | Due In One Year |
|-----------------------------|------------------------------------|-------------------|---------------------|------------------------------------|--------------------|
| 2013 Capital Lease | \$ 12,105 | \$ 0 | \$ 4,058 | \$ 8,047 | \$4,511 |
| 2015 Capital Lease | 56,720 | 0 | 11,511 | 45,209 | 12,930 |
| Net Pension Liability: | | | | | |
| STRS | 2,050,930 | 0 | (233,403) | 1,817,527 | 0 |
| SERS | 330,429 | 181,459 | 0 | 511,888 | 0 |
| Total Net Pension Liability | <u>2,381,359</u> | <u>181,459</u> | <u>(233,403)</u> | <u>2,329,415</u> | <u>0</u> |
| Total Long-Term Obligations | <u>\$ 2,450,184</u> | <u>\$ 181,459</u> | <u>\$ (217,834)</u> | <u>\$ 2,382,671</u> | <u>\$ 17,441</u> |

The following summarizes the minimum principal payments due under this lease subsequent to June 30, 2016:

| | |
|--|------------------|
| 2017 | 22,621 |
| 2018 | 21,773 |
| 2019 | 17,528 |
| 2020 | 1,461 |
| Total Minimum Lease Payments | <u>63,383</u> |
| Less: Interest | <u>(10,127)</u> |
| Present Value of Minimum Interest Payments | <u>\$ 53,256</u> |

14. OPERATING LEASE

The Academy is a lessee for a twelve-month building operating lease for the period of July 1, 2015 through June 30, 2016 with the City of Euclid (the lessor). Rent is payable in monthly installments of \$4,121 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, 2015 through June 30, 2016 with the Roman Catholic Diocese of Cleveland (the lessor). Rent is payable in monthly installments of approximately \$4,338 and is due by the first day of each and every calendar month.

15. CONTINGENCIES

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School at June 30,

**NEW DAY ACADEMY BOARDING & DAY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

15. CONTINGENCIES (Continued)

2016, if applicable, cannot be determined at this time.

B. State Funding

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, community schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School, which can extend past the fiscal year end. As a result of the review, the Ohio Department of Education overpaid the Academy \$16,204, which is recorded as Intergovernmental Payable.

16. MANAGEMENT PLAN TO ELIMINATE NEGATIVE NET POSITION

At June 30, 2015, the Academy had a negative ending net position of \$(2,786,842). 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.

New Day Academy Boarding & Day School
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the School Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|--------------|--------------|--------------|
| State Teachers Retirement System of Ohio (STRS) | | | |
| School's Proportion of the Net Pension Liability | 0.00657641% | 0.00843190% | 0.00843190% |
| School's Proportionate Share of the Net Pension Liability | \$ 1,817,527 | \$ 2,050,930 | \$ 2,436,475 |
| School's Covered-Employee Payroll | \$ 746,271 | \$ 934,938 | \$ 1,057,046 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 243.55% | 219.37% | 230.50% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.10% | 74.70% | 69.30% |
| School Employees Retirement System of Ohio (SERS) | | | |
| School's Proportion of the Net Pension Liability | 0.00897090% | 0.00652900% | 0.00652900% |
| School's Proportionate Share of the Net Pension Liability | \$ 511,888 | \$ 330,429 | \$ 388,377 |
| School's Covered-Employee Payroll | \$ 375,751 | \$ 193,939 | \$ 185,029 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 136.23% | 170.38% | 209.90% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.16% | 71.70% | 65.52% |

(1) Information prior to 2013 is not available.

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

New Day Academy Boarding & Day School
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of School Contributions
Last Ten Fiscal Years

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|-----------------|------------------|------------------|------------------|
| <i>State Teachers Retirement System of Ohio (STRS)</i> | | | | |
| Contractually Required Contribution | \$ 71,653 | \$ 104,478 | \$ 121,542 | \$ 137,416 |
| Contributions in Relation to the Contractually Required Contribution | <u>(71,653)</u> | <u>(104,478)</u> | <u>(121,542)</u> | <u>(137,416)</u> |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| School's Covered-Employee Payroll | \$ 511,807 | \$ 746,271 | \$ 934,938 | \$ 1,057,046 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 14.00% | 13.00% | 13.00% |
| <i>School Employees Retirement System of Ohio (SERS)</i> | | | | |
| Contractually Required Contribution | \$ 32,851 | \$ 49,524 | \$ 26,880 | \$ 25,608 |
| Contributions in Relation to the Contractually Required Contribution | <u>(32,851)</u> | <u>(49,524)</u> | <u>(26,880)</u> | <u>(25,608)</u> |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| School's Covered-Employee Payroll | \$ 234,650 | \$ 375,751 | \$ 193,939 | \$ 185,029 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.18% | 13.86% | 13.84% |

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| \$ 120,516 | \$ 114,102 | \$ 81,500 | \$ 82,860 | \$ 91,544 | \$ 47,340 |
| <u>(120,516)</u> | <u>(114,102)</u> | <u>(81,500)</u> | <u>(82,860)</u> | <u>(91,544)</u> | <u>(47,340)</u> |
| <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| \$ 927,046 | \$ 877,708 | \$ 626,923 | \$ 637,385 | \$ 704,185 | \$ 364,154 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |
| | | | | | |
| \$ 24,384 | \$ 21,072 | \$ 27,644 | \$ 16,944 | \$ 16,002 | \$ 5,982 |
| <u>(24,384)</u> | <u>(21,072)</u> | <u>(27,644)</u> | <u>(16,944)</u> | <u>(16,002)</u> | <u>(5,982)</u> |
| <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| \$ 181,294 | \$ 167,637 | \$ 204,165 | \$ 172,195 | \$ 162,953 | \$ 56,011 |
| 13.45% | 12.57% | 13.54% | 9.84% | 9.82% | 10.68% |

**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY,
AND LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

School Employees Retirement System (SERS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

State Teachers Retirement System (STRS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.



Dave Yost • Auditor of State

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

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 the New Day Academy Boarding and Day School, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated April 20, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

April 20, 2017

NEW DAY ACADEMY BOARDING AND DAY SCHOOL
CUYAHOGA COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|------------------------|--|-------------------------------|
| 2015-001 | Bank Reconciliations | Corrective Action Taken and Finding is Fully Corrected | None |

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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
MAY 4, 2017