



Dave Yost • Auditor of State

**T2 HONORS ACADEMY
CUYAHOGA COUNTY
JUNE 30, 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses and Change in Net Position	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	12
Required Supplementary Information:	
Schedule of the Academy's Proportionate Share of the Net Pension Liability – Last Three Fiscal Years	27
Schedule of Academy Contributions – Last Two Fiscal Years	28
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required By <i>Government Auditing Standards</i>	29
Independent Accountants' Report on Applying Agreed-Upon Procedures	31

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

T2 Honors Academy
Cuyahoga County
18450 South Miles Road
Warrensville Heights, OH 44128

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of T2 Honors Academy, 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 the T2 Honors Academy, 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 August 7, 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

August 7, 2017

**T2 HONORS ACADEMY
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The discussion and analysis of T2 Honors Academy'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.

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

Financial Highlights

Key financial highlights for T2 Honors Academy during the fiscal year ended June 30, 2016 are as follows:

- Total net position decreased by \$(80,040)
- Total assets and deferred outflows of resources increased by \$613,744.
- Total liabilities and deferred inflows of resources increased by \$693,784.
- The Academy's operating loss was \$202,885.

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, therefore the entity wide and the fund presentations information is the same.

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 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's property 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 June 30, 2016.

**T2 HONORS ACADEMY
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (UNAUDITED)**

(Table 1)

Statement of Net Position

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	\$ 32,552	\$ 3,934
Capital Assets, Net	<u>5,843</u>	<u>1,739</u>
Total Assets	<u>38,395</u>	<u>5,673</u>
Deferred Outflows of Resources		
Pension	<u>620,466</u>	<u>39,444</u>
Total Deferred Outflows of Resources	620,466	39,444
Liabilities		
Current Liabilities	277,401	219,111
Long Term Liabilities	<u>635,494</u>	<u>-</u>
Total Liabilities	912,895	219,111
Net Position		
Investment in Capital Assets	5,843	1,739
Unrestricted	<u>(259,877)</u>	<u>(175,733)</u>
Total Net Position	<u>\$ (254,034)</u>	<u>\$ (173,994)</u>

**T2 HONORS ACADEMY
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (UNAUDITED)**

Table 2 shows the changes in net position ended June 30, 2016.

(Table 2)
Change in Net Position

	<u>2016</u>	<u>2015</u>
Operating Revenue		
State Aid	\$ 696,271	\$ 369,583
Non-Operating Revenue		
Grants	141,870	29,454
Miscellaneous	14,072	7,748
Interest Income	135	22
Total Revenues	<u>852,348</u>	<u>406,807</u>
Operating Expense		
Salaries	304,534	230,427
Fringe Benefits	80,292	4,455
Purchased Services	482,881	253,687
Supplies and Material	30,416	37,759
Depreciation	1,033	-
Non-Operating Expenses		
Miscellaneous	<u>33,232</u>	<u>54,473</u>
Total Expenses	<u>932,388</u>	<u>580,801</u>
Change in Net Position	(80,040)	(173,994)
Net Position, Beginning of Year	<u>(173,994)</u>	N/A
Net Position, End of Year	<u>\$ (254,034)</u>	<u>\$ (173,994)</u>

Capital Assets

At the end of fiscal year 2016, the Academy had \$5,843 invested in capital assets. See Note 4 of the basic financial statements for additional details.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Net Pension Liabilities

During 2015, the Academy implemented 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.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

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

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. Under GASB 68, pension expense represents additional amounts owed, adjusted by deferred inflows and outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2016 statements report pension expense of \$98,629.

Short Term Obligations

At June 30, 2016, the Academy had outstanding debt in the form of Loans Payable in the amount of \$100,249 as well as advances payable from Charter School Capital in the amount of \$96,700. Note 16 will explain further details.

Budgetary

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in the Ohio Review Code Chapter 5705 unless specifically provided in the Academy's contract with its Sponsor. The Academy does provide an annual budget in addition to five-year forecasts in October and May of each fiscal year according to its Sponsor agreement.

Currently Known Facts

There are no currently known facts that would be expected to have a significant impact on the financial condition of the Academy in the next year.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of T2 Honors Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of T2 Honors Academy, 18450 South Miles Road, Warrensville Heights, Ohio 44128.

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**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 7,039
Intergovernmental Receivable	25,513
Total Current Assets	<u>32,552</u>

Non-current Assets

Depreciable Capital Assets, net	<u>5,843</u>
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Total Assets	<u>38,395</u>
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Deferred Outflows of Resources

Pension	620,466
Total Deferred Outflows of Resources	<u>620,466</u>

LIABILITIES

Current Liabilities

Accounts Payable	39,466
Accrued Wages	40,986
Loans Payable, Due within one year	100,249
Advances Payable	96,700
	<u>277,401</u>

Long-Term Liabilities

Net Pension Liability	635,494
Total Liabilities	<u>912,895</u>

NET POSITION

Investment in Capital Assets	5,843
Unrestricted	<u>(259,877)</u>

Total Net Position	<u><u>\$ (254,034)</u></u>
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See accompanying notes to the basic financial statements

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

OPERATING REVENUES	
State Aid	\$ 696,271
Total Operating Revenues	696,271
OPERATING EXPENSES	
Salaries	304,534
Fringe Benefits	80,292
Purchased Services	482,881
Supplies and Material	30,416
Depreciation	1,033
Total Operating Expenses	899,156
Operating Loss	(202,885)
NON-OPERATING REVENUE / (EXPENSES)	
State Grants	382
Federal Grants	141,488
Miscellaneous Revenue	14,072
Miscellaneous Expenses	(33,232)
Interest Income	135
Total Non-Operating Revenue / (Expenses)	122,846
Change in Net Position	(80,040)
Net Position Beginning of Year	(173,994)
Net Position End of Year	\$ (254,034)

See accompanying notes to the basic financial statements

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 696,271
Cash Payments for Employees and Benefits	(312,885)
Cash Payments to Suppliers for Goods and Services	(494,525)
Net Cash Used For Operating Activities	<u>(111,139)</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Cash Received from Advances	280,300
Cash Payments for Loans	(14,041)
Cash Payments for Capital Acquisitions	(5,843)
Cash Payments for Advances	(244,200)
Net Cash Provided by for Capital Financing Activities	<u>16,216</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Payments for Miscellaneous Expenses	(31,101)
Cash Received from Miscellaneous Revenue	14,072
Cash Received from Grants	116,357
Net Cash Provided by Noncapital Financing Activities	<u>99,328</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest on Investments	<u>135</u>
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Net Decrease in Cash and Cash Equivalents 4,540

Cash and Cash Equivalents Beginning of Year 2,499

Cash and Cash Equivalents End of Year \$ 7,039

RECONCILIATION OF OPERATING LOSS TO NET

CASH USED FOR OPERATING ACTIVITIES

Operating Loss (202,885)

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET

CASH USED FOR OPERATING ACTIVITIES

Depreciation 1,033

Changes in Assets and Liabilities, Deferred Inflow/Outflow of Resources:

(Increase)Decrease in Deferred Outflows of Resources (581,022)

Increase (Decrease) in Net Pension Liability 635,494

Increase (Decrease) in Accounts Payable 18,772

Increase (Decrease) in Accrued Wages 17,469

Total Adjustments 91,746

Net Cash Used For Operating Activities \$ (111,139)

See accompanying notes to the basic financial statements

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

T2 Honors Academy (Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy, which is part of the State's education program, is independent of any school district and is non sectarian 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 Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2014. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy is required to operate under the direction of a Governing Board consisting of at least five members. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund 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 of resources are included on the statement of net position. The difference between total assets and deferred outflows of resources and liabilities and deferred inflows of resources is defined as net position. The statement of revenues, expenses and changes in net position represent increases (i.e., revenues) and decreases (i.e., 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 utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
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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 Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an semi-annual basis.

D. Cash

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash into separate funds. Cash is defined as demand deposits, savings, and investments with original maturity less than 90 days.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy does not possess any infrastructure. The Academy maintains a capitalization threshold of \$1,000. Improvements are capitalized. The cost 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.

All reported capital assets are depreciated. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Life</u>
Buildings	40 years
Furniture, Fixtures, and Equipment	5 years
Leasehold Improvements	15 years

F. 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 these estimates.

G. Intergovernmental Revenues

The Academy is a participant in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation Program totaled \$696,271 during fiscal year 2016. Revenues associated with specific education grants from the state and federal governments totaled \$141,870 during fiscal year 2016.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
--

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the Academy's primary mission. For the Academy, operating revenues include revenues paid through the State Foundation Program. Operating expenses are necessary costs incurred to support the Academy's primary mission, including purchased services, materials and supplies and depreciation.

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various federal and state grants, interest earnings, if any, and payments made to the Academy by other instructional entities for use of the Academy's instructional staff comprise the non-operating revenues of the Academy. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any, comprise the non-operating expenses.

I. Accounts Payable

Obligations incurred but unpaid prior to June 30, 2016 are reported as accounts payable in the accompanying financial statements. Payables totaled \$39,466 at June 30, 2016.

J. 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. The deferred outflows of resources are explained in Note 8.

In addition to liabilities, the statement of financial 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 then. At June 30, 2016, the Academy did not report deferred inflows of resources, See Note 8.

K. 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.

L. 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 their 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 position is available.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
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M. Economic Dependency

The Academy receives 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

N. Implementation of New Accounting Principles

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

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

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

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

3. DEPOSITS

At June 30, 2016, the carrying amount of the Academy's deposits was \$7,039 and the bank balance was \$7,039. 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.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

4. CAPITAL ASSETS

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

	<u>Balance</u> <u>7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2016</u>
Capital Assets Being Depreciated:				
Furniture and Fixtures	1,739	5,137	-	6,876
Total Capital Assets Being Depreciated	-	5,137	-	6,876
Less Accumulated Depreciation:				
Furniture and Fixtures	-	(1,033)	-	(1,033)
Total Accumulated Depreciation	-	(1,033)	-	(1,033)
Total Capital Assets Being Depreciated Net	<u>\$ 1,739</u>	<u>\$ 4,104</u>	<u>\$ -</u>	<u>\$ 5,843</u>

5. INTERGOVERNMENTAL RECEIVABLES

At June 30, 2016, the Academy had intergovernmental receivables in the amount of \$25,513 that consisted of a refund from the retirement system.

6. ACCRUED WAGES AND BENEFITS

Accrued wages and benefits were \$40,986, which represents wages, with associated benefits, earned and not paid at June 30, 2016 for certain School teachers paid over a 12 month period.

7. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. For fiscal year 2016, the Academy contracted with Zito Insurance for property and general liability insurance. The property insurance limits are \$1,000,000 per occurrence and 3,000,000 in aggregate, plus an excess or umbrella policy extending coverage in an amount of no less than \$5,000,000.

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. The Academy had paid all premiums as of June 30, 2016.

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.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 accounts *payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School 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.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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, 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 \$13,400 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School 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.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 annualization 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 equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$30,756 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. The Academy did not exist as of June 30, 2014.

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 520,893	\$ 114,601	\$ 635,494
Proportion of the Net Pension Liability	0.00188476%	0.00200840%	
Pension Expense	\$ 72,138	\$ 26,491	\$ 98,629

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 20,435	\$ 1,199	\$ 21,634
Changes in proportion	431,072	88,880	519,952
School contributions subsequent to the measurement date	30,756	13,400	44,156
Net difference between projected and actual earnings on pension plan investments	26,148	8,576	34,724
Total Deferred Outflows of Resources	<u>\$ 508,411</u>	<u>\$ 112,055</u>	<u>\$ 620,466</u>

\$44,156 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ 119,414	\$ 30,923	\$ 150,337
2018	119,414	30,923	150,337
2019	119,413	30,923	150,336
2020	119,413	5,886	125,299
	<u>\$ 477,654</u>	<u>\$ 98,655</u>	<u>\$ 576,309</u>

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.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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

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

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:

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

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 158,911	\$ 114,601	\$ 77,289

Actuarial Assumptions - STRS

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

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

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

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

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

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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
	<u>100.00 %</u>	

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 School'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%)
School's proportionate share of the net pension liability	\$ 723,559	\$ 520,893	\$ 349,508

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description – The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

9. POSTEMPLOYMENT BENEFITS (CONTINUED)

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, co-pays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statute provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016 and 2015 were \$1,081 and \$656 respectively. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

Plan Description – The Academy participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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 and 2015 were \$0 and \$0 respectively.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

10. PURCHASED SERVICES

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

Professional and Technical Services	\$ 189,479
Property Services	116,446
Meetings	2,563
Communication	3,988
Utilities	14,056
Contracted Services	98,861
Transportation	57,488
Total Purchased Services	<u>\$ 482,881</u>

11. OPERATING LEASES

The Academy leases a building located at 18450 S. Miles Road from Midwest Global Distribution. The term of the lease is for a period of 60 months commencing on July 1, 2014 and ending June 30, 2019. The first two months of rent were zero. Annual rent increases adjust based upon the annual CPI (consumer price index). For fiscal year 2016, the Academy paid \$91,000 in rent.

The Academy also leases a copier from Blue Technologies. The term of the lease is for a period of 60 months commencing on August 10, 2014 and ending August 10, 2019. There is no option to purchase at the end of the term.

12. SPONSORSHIP FEES

In June 2014, the Academy contracted with the Ohio Department of Education to be its Sponsor. The Term of the Contract is from July 1, 2014 through June 30, 2019. ODE will be paid three Percent (3%) for the length of the contract. Total fee expense for fiscal year 2016 was \$20,453. The Sponsor is to provide oversight, monitoring and technical assistance for the School.

13. 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 Academy at June 30, 2016, if applicable, cannot be determined at this time.

**T2 HONORS ACADEMY
CUYAHOGA COUNTY**

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

13. CONTINGENCIES (CONTINUED)

B. State Funding

The School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, the traditional school districts must comply with the 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 district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 and 2016 Foundation funding for the School; therefore, the financial statements impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School.

14. LOANS PAYABLE/RELATED PARTY

The Founder and Superintendent of the school loaned the Board of Education \$126,834 for start up expenses. The term of the agreement indicates that such monies will be repaid within 18 months plus interest of 15.5%. The Board and Superintendent renegotiated its terms to extend the agreement for three years. As of June 30, 2016, the Academy's outstanding balance is \$100,249.

15. SUBSEQUENT EVENTS

The Academy settled an outstanding lawsuit with the former management company of the Academy. The amount of the settlement was \$6,500.

16. SHORT TERM OBLIGATIONS

Charter School Capital - In March 2015, the school entered into an agreement with Charter School Capital to borrow against its future Foundation payments. The amount borrowed was \$280,400, with a balance due of \$96,700 at June 30, 2016. The terms of the loan are amounts borrowed are to be repaid over the course of the next three months. The imputed interest rate is 18% per annum.

17. TAX EXEMPT STATUS

The Academy may, but is not required to, qualify as a federal tax exempt entity under Section 501(c)(3) of the Internal Revenue Code. As of June 30, 2016, the School has filed for its tax exempt status. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. To date, the school has not received its tax exempt notification.

T2 Honors Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the Academy's 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 (STRS)			
Academy's Proportion of the Net Pension Liability	0.00188476%	0.00000000%	0.00000000%
Academy's Proportionate Share of the Net Pension Liability	\$ 520,893	\$ 0	\$ 0
Academy's Covered-Employee Payroll	\$ 206,429	\$ 0	\$ 0
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	252.34%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)			
Academy's Proportion of the Net Pension Liability	0.00200840%	0.00000000%	0.00000000%
Academy's Proportionate Share of the Net Pension Liability	\$ 114,601	\$ 0	\$ 0
Academy's Covered-Employee Payroll	\$ 80,000	\$ 0	\$ 0
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	143.25%	0.00%	0.00%
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 because 2015 was the first year of the Academy's operation.

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

T2 Honors Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of Academy's Contributions
Last Three Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>State Teachers Retirement System (STRS)</i>			
Contractually Required Contribution	\$ 30,756	\$ 28,900	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>(30,756)</u>	<u>(28,900)</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered-Employee Payroll	\$ 219,686	\$ 206,429	\$ 0
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%
<i>School Employees Retirement System (SERS)</i>			
Contractually Required Contribution	\$ 13,400	\$ 10,544	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>(13,400)</u>	<u>(10,544)</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered-Employee Payroll	\$ 95,714	\$ 80,000	\$ 0
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%

(1) Information prior to is not available because 2015 was the first year of the Academy's operation.



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*

T2 Honors Academy
Cuyahoga County
18450 South Miles Road
Warrensville Heights, OH 44128

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 T2 Honors Academy, 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 August 7, 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

August 7, 2017



Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

T2 Honors Academy
Cuyahoga County
18450 South Miles Road
Warrensville Heights, OH 44128

To the Board of Directors:

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

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether T2 Honors Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on June 24, 2014.
2. We inspected the policy, noting it includes the following requirements listed in Ohio Rev. Code 3313.666:
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property, on a school bus, or at school-sponsored events and expressly providing for the possibility of suspension of a student found responsible for harassment, intimidation, or bullying by an electronic act;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as of the latest amendment;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
- (11) A statement that includes violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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



Dave Yost
Auditor of State
Columbus, Ohio

August 7, 2017



Dave Yost • Auditor of State

T2 HONORS ACADEMY

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
AUGUST 29, 2017**