WATKINS ACADEMY
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Dave Yost • Auditor of State

WATKINS ACADEMY
MONTGOMERY COUNTY
JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Watkins Academy
Montgomery County
4401 Dayton Liberty Road
Dayton, Ohio 45417

To the Board of Directors:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Watkins Academy, Montgomery County, Ohio (the Academy), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Basis for Disclaimer of Opinion

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

Disclaimer of Opinion

Due to the significance of the matters discussed in the *Basis for Disclaimer of Opinion* paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of the Academy for the fiscal year ended June 30, 2015.

Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Additionally, as discussed in Note 17 to the financial statements, the Academy suspended operations on June 29, 2017 and was closed effective September 30, 2017. We did not modify our opinion regarding these matters.

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 July 30, 2018, 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

Dave Yost
Auditor of State
Columbus, Ohio

July 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED

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

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

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- Total net position was $37,758 in fiscal year 2015.
- Total operating and non-operating revenues were $728,213 in fiscal year 2015.
- Total expenses were $735,103 in fiscal year 2015.
- Current liabilities were $28,455 in fiscal year 2015.
- The long-term liabilities were $476,269 in fiscal year 2015.

Using this Financial Report

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

The Statement of Net Position and Statement of Revenues, Expenses and Change in Net Position reflect how the Academy did financially during their second year of operations of 2015. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

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

The Academy uses enterprise presentation for all of its activities.

Statement of Net Position

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

Table 1 provides a summary of the Academy's Net Position for fiscal years 2015 and 2014.

(Table 1)
Statement of Net Position

	2015	Restated 2014
Assets		
Current Assets	$ 118,957	$ 23,107
Noncurrent Assets	8,719	8,340
Total Assets	$ 127,676	$ 31,447
Deferred Outflows of Resources		
Pension Requirements	500,391	34,106
Liabilities		
Current Liabilities	$ 28,455	$ 20,905
Long-Term Liabilities	476,269	
	$ 504,724	$ 20,905
Deferred Inflows of Resources		
Pension Requirements	$ 85,585	$ -
Net Position		
Net Investment in Capital Assets	$ 8,719	$ 8,340
Restricted for Food Service		1,211
Restricted for Grants		3,799
Unrestricted	29,039	31,298
Total Net Position	$ 37,758	$ 44,648

For fiscal year 2015, total assets were $127,676, while total liabilities were $504,724. Cash and cash equivalents were $86,672 while intergovernmental receivables were $32,285.

Statement of Revenues, Expenses and Change in Fund Net Position

Table 2 shows the changes in net position for the fiscal year ended June 30, 2015, as well as a listing of revenues and expenses, as compared to changes reported for fiscal year 2014.

This change in Net Position is important because it tells the reader whether, for the Academy as a whole, the financial position of Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

(Table 2)
Change in Net Position

	2015	2014
Operating Revenues		
State Aid	$ 597,124	$ 344,725
Casino Aid	3,321	1,239
Facilities Aid	6,817	4,363
Other Operating	3,079	817
Non-Operating Revenues		
Grants	117,872	39,760
Contributions & Donations	-	10,060
Total Revenues	728,213	400,964
Operating Expenses		
Salaries	303,627	186,709
Fringe Benefits	160,414	38,273
Purchased Services	214,272	138,476
Materials and Supplies	31,202	20,343
Depreciation	2,473	1,660
Other	23,115	4,961
Total Expenses	735,103	390,422
Change in Net Position	$ (6,890)	$ 10,542

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 83% of revenues while federal made up the remaining. The Academy's' most significant expense Salaries and Fringe Benefits represents 63% of total expenses, which represent payments to employees and payment for employee benefits.

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

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

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

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the Academy, part of a bargained-for benefit to the employee, and should accordingly be reported by the Academy as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $10,542 to $44,648.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2015 and 2014.

Net Position June 30, 2014	$	10,542
Deferred Outflows of Resources		34,106
Restated Net Position, July 1, 2014	$	44,648

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of $34,106 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of $136,512. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	$	735,103
Pension expense under GASB 68		(136,512)
2015 contractually required contribution		43,508
Adjusted 2015 program expenses		642,099
Total 2014 program expenses under GASB 27		390,422
Increase in program expenses not related pension	$	251,677

Budgeting Highlights

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

Capital Assets

At the end of fiscal year 2015, the Academy had net capital assets in the amount of $8,719.

Debt

At June 30 2015, the Academy had $476,269 of long-term liabilities and $ 28,455 of current liabilities.

Current Financial Related Activities

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

Contacting Management

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

WATKINS ACADEMY
MONTGOMERY COUNTY

STATEMENT OF NET POSITION
JUNE 30, 2015

Assets:	
Current Assets:	
Cash and Cash Equivalents	$86,672
Intergovernmental Receivable	32,285
Total Current Assets	118,957
Non-Current Assets:	
Capital Assets, Net	8,719
Total Assets	127,676
Deferred Outflows of Resources:	
Pension Requirements	500,391
Liabilities:	
Current Liabilities:	
Accounts Payable	2,518
Accrued Wages and Benefits	25,937
Total Current Liabilities	28,455
Long-term Liabilities:	
Net Pension Liabilites	476,269
Total Liabilities	504,724
Deferred Inflows of Resources:	
Pension Requirements	85,585
Net Position:	
Net Investment in Capital Assets	8,719
Unrestricted	29,039
Total Net Position	$37,758

See accompanying notes to the basic financial statements.

WATKINS ACADEMY
MONTGOMERY COUNTY

STATEMENT OF REVENUES,
EXPENSES, AND CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Operating Revenues:	
State Aid	$597,124
Casino Aid	3,321
Facilities Aid	6,817
Other Operating	3,079
Total Operating Revenues	610,341
Operating Expenses:	
Salaries	303,627
Fringe Benefits	160,414
Purchased Services	214,272
Materials and Supplies	31,202
Depreciation	2,473
Other	23,115
Total Operating Expenses	735,103
Operating Loss	(124,762)
Non-Operating Revenues:	
Grants	117,872
Change in Net Position	(6,890)
Net Position, Beginning of Year, Restated	44,648
Net Position, End of Year	$37,758

See accompanying notes to the basic financial statements.

WATKINS ACADEMY
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$599,047
Cash Received from Other Operating Sources	3,079
Cash Payments to Employees for Services	(277,690)
Cash Payments for Employee Benefits	(64,845)
Cash Payments to Suppliers for Goods and Services	(252,756)
Other Cash Payments	(23,115)
Net Cash Used in Operating Activities	(16,280)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Grants	103,644
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Assets	(2,852)
Net Increase in Cash and Cash Equivalents	84,512
Cash and Cash Equivalents, Beginning of Year	2,160
Cash and Cash Equivalents, End of Year	$86,672
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Loss	($124,762)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation	2,473
Changes in Assets, Liabilities, Deferred Inflows of Resources, and Deferred Outflows of Resources:	
Decrease in Intergovernmental Receivable	2,890
Decrease in Accounts Payable	(7,282)
Increase in Accrued Wages and Benefits	25,937
Decrease in Intergovernmental Payable	(11,105)
Increase in Net Pension Liability	476,269
Increase in Deferred Outflows	(466,285)
Increase in Deferred Inflows	85,585
Net Cash Used in Operating Activities	($16,280)

Noncash Transactions:
The Academy had outstanding intergovernmental receivables related to non-operating grants of $25,213 at June 30, 2015.

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

The Academy was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years from July 1, 2013 through June 30, 2018. The Academy operates under a self-appointing five-member Board of Directors (the Board). The Academy's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility. The facility is staffed with teaching personnel who provide services to 75 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

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

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Change in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

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

C. BUDGETARY PROCESS

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

D. CASH AND CASH EQUIVALENTS

All cash received by the Academy is maintained in a demand deposit account. The Academy did not have any investments during fiscal year 2015.

E. CAPITAL ASSETS AND DEPRECIATION

For purposes of recording capital assets, the Board has a capitalization threshold of $1,000.

The capital assets are recorded on the accompanying Statement of Net Position at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method over three years for "Computers and Software" and five to twenty years for "Leasehold Improvements".

F. INTERGOVERNMENTAL REVENUES

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INTERGOVERNMENTAL REVENUES (Continued)

Eligibility requirements, include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Amounts awarded under the above programs for the 2015 school year totaled $714,996.

G. OPERATING REVENUES AND EXPENSES

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

H. NET POSITION

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

I. USE OF ESTIMATES

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

J. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net positon 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 5.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position.

3. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30 2015, the carrying amount of the Academy's deposits was $86,672 and the bank balance was $90,789. Of the bank balance, all was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure, $0 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

4. RISK MANAGEMENT

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

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

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

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

5. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

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

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

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

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

5. DEFINED BENEFIT PENSION PLANS (Continued)

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

Age and service requirements for retirement are as follows:

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

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

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

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

C. Funding Policy

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was $11,208 for fiscal year 2015.

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

Plan Description – Academy licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

5. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

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

5. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

The Academy's contractually required contribution to STRS was $32,300 for fiscal year 2015.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$364,979	$111,290	$476,269
Proportion of the Net Pension Liability	0.00150052%	0.00219900%	
Pension Expense	103,813	32,699	$136,512

At June 30, 2015, 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	$3,514	$947	$4,461
Change in Proportionate Share	347,808	104,614	452,422
Academy contributions subsequent to the measurement date	32,300	11,208	43,508
Total Deferred Outflows of Resources	$383,622	$116,769	$500,391
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$67,522	$18,063	$85,585

5. DEFINED BENEFIT PENSION PLANS (Continued)

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

$43,508 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2016	($70,950)	($21,877)	($92,827)
2017	($70,950)	($21,877)	(92,827)
2018	($70,950)	($21,877)	(92,827)
2019	($70,950)	(21,867)	(92,817)
Total	($283,800)	($87,498)	($371,298)

F. Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

5. DEFINED BENEFIT PENSION PLANS (Continued)

F. Actuarial Assumptions – SERS (Continued)

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

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

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

G. Discount Rate

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

5. DEFINED BENEFIT PENSION PLANS (Continued)

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

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	$ 158,778	$ 111,290	$ 71, 349

I. Actuarial Assumptions - STRS

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

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

5. DEFINED BENEFIT PENSION PLANS (Continued)

J. Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$522,506	$364,979	$231,763

6. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description – SERS administers a Health Care Fund 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

6. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was $20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015 and 2014 were $1,481 and $134, respectively. The full amount has been contributed for fiscal years 2015 and 2014.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015 and 2014 were $0 and $1,533, respectively. The full amount has been contributed for fiscal years 2015 and 2014.

7. CONTINGENCIES

A. GRANTS

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

B. FULL TIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As a result of the 2014-2015 school year review, the Academy recorded an intergovernmental receivable of $6,791 on the accompanying financial statements.

8. FEDERAL TAX STATUS

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

9. SPONSORSHIP FEES

The Academy contracts with Ohio Department of Education to be its sponsor effective July 1, 2013 through June 30, 2018. The contract states “…the annual sponsorship fee to be paid to Ohio Department of Education be set at 3 percent of the State’s annual School Foundation support…” The Sponsor is to provide oversight, monitoring, and technical assistance for the Academy. Amount paid to Ohio Department of Education for fiscal year 2015 was $17,526.

10. CAPITAL ASSETS

A summary of the Academy’s capital assets at June 30, 2015, follows:

Capital Assets Being Depreciated:	**Balance 6/30/2014**	**Additions**	**Deletions**	**Balance 6/30/2015**
Computers & Equipment	$ 10,000	$ 2,853	-	$ 12,853
Less Accumulated Depreciation:				
Computers & Equipment	(1,660)	(2,474)	-	(4,134)
Total Capital Assets Being Depreciated, Net	$ 8,340	$ 379	$ -	$ 8,719

11. PURCHASED SERVICES

For the period July 1, 2014 through June 30, 2015, purchased service expenses were for the following services:

	2015
Professional and Technical Services	67,720
Property Services	27,379
Travel Mileage/Meals	12,913
Communications	8,579
Utilities	8,250
Contracted Trade Services	52,350
Transportation	37,081
	214,272

12. ACCOUNTS RECEIVABLE AND PREPAID

At June 30, 2015, the Academy had no accounts receivable and had intergovernmental receivables in the amount of $32,285. Intergovernmental receivables consist of state funding FTE audit results, and federal assistance (CCIP) which eligibility requirements have been met (earned) at June 30, 2015, but the cash was not received by year end. The Academy also had no prepaid items during fiscal year 2015.

13 ACCOUNTS PAYABLE

At June 30, 2015, the Academy had accounts payable totaling $ 2,518 due various vendors during the normal course of conducting operations.

14. OPERATING LEASES – LESSEE DISCLOSURE

The Academy leases space from Downtown Dayton Holdings, LLC located at 24 N Jefferson Street. Rent was $1,000 per month beginning July 26, 2013 ending September 20, 2014 and $2,000 per month for the renewal period of October 1, 2014 through September 30, 2015. The Academy also paid an additional fee for parking. Downtown Dayton Holdings. LLC was sold to Simms Building LLC during fiscal year 2015. Total paid for fiscal year 2015 was $22,080.

15. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2015, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68.*

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension

15. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION (Continued)

plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Academy.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported.

Net Position June 30, 2014	$ 10,542
Deferred Outflows of Resources	34,106
Restated Net Position, July 1, 2014	$ 44,648

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

16. SUBSEQUENT EVENT

In July of 2015, the Academy purchased land and improvements at 4415 Dayton-Liberty Road property and land at 4401 Dayton-Liberty Road from Dixon United Methodist Church, Inc.; and the building at 4401 Dayton-Liberty Road property from Alliance Facilities Management, Inc. at a total contract price of $475,000. The contract specifies an interest rate of 5.5% and requires monthly payments. The contract shall be paid in full on or before September 15, 2018.

17. DISSOLUTION OF THE ACADEMY

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

18. ONGOING INVESTIGATION

The Auditor of State is currently conducting an investigation related to the Academy. As of the date of this report, the investigation is ongoing. Depending on the outcome, the results of the investigation may be reported at a later date.

WATKINS ACADEMY
MONTGOMERY COUNTY

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

State Teachers Retirement System (STRS)	**2014**
Academy's proportion of the net pension liability	0.00150052%
Academy's proportionate share of the net pension liability	$ 364,979
Academy's covered-employee payroll	$ 193,838
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	188.29%
Plan fiduciary net position as a percentage of the total pension liability	74.70%

School Employees Retirement System (SERS)	**2014**
Academy's proportion of the net pension liability	0.00219900%
Academy's proportionate share of the net pension liability	$ 111,290
Academy's covered-employee payroll (2)	$ 64,264
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	173.18%
Plan fiduciary net position as a percentage of the total pension liability	71.70%

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

(2) The School Employee's Retirement Systems (SERS) covered-employee payroll presented includes contracted employees of the Academy who contribute to School Employee's Retirement Systems (SERS) as statutorily permitted.

WATKINS ACADEMY
MONTGOMERY COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ACADEMY CONTRIBUTIONS
LAST TWO FISCAL YEARS (1)

State Teachers Retirement System (STRS)	2015	2014
Contractually required contribution	$ 32,300	$ 25,199
Contributions in relation to the contractually required contribution	$ (32,300)	$ (25,199)
Contribution deficiency (excess)	$ -	$ -
Academy's covered-employee payroll	$ 230,714	$ 193,838
Contributions as a percentage of covered-employee payroll	14.00%	13.00%

School Employees Retirement System (SERS)	2015	2014
Contractually required contribution	$ 11,208	$ 8,907
Contributions in relation to the contractually required contribution	$ (11,208)	$ (8,907)
Contribution deficiency (excess)	$ -	$ -
Academy's covered-employee payroll (2)	$ 85,038	$ 62,264
Contributions as a percentage of covered-employee payroll	13.18%	13.86%

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

(2) The School Employee's Retirement Systems (SERS) covered-employee payroll presented includes contracted employees of the Academy who contribute to School Employee's Retirement Systems (SERS) as statutorily permitted.

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

Watkins Academy
Montgomery County
4401 Dayton Liberty Road
Dayton, Ohio 45417

To the Board of Directors:

We were engaged to audit, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Watkins Academy, Montgomery County, (the Academy) as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated July 30, 2018, wherein we noted the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We also noted the Academy suspended operations on June 29, 2017 and was closed effective September 30, 2017. In addition, our report disclaims an opinion on such financial statements because management did not provide the Auditor of State with certain representations as required by Auditing Standard Section AU-C Section 580, *Written Representations*.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the Academy, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and a significant deficiency.

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 a 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. We consider findings 2015-001 and 2015-002 described in the accompanying schedule of findings to be material weaknesses.

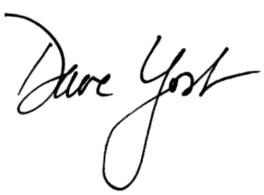
A *significant deficiency* is a deficiency, or a combination of internal control deficiencies, less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2015-003 described in the accompanying schedule of findings to be a significant deficiency.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-004.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

July 30, 2018

SCHEDULE OF FINDINGS
JUNE 30, 2015

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

FINDING NUMBER 2015-001

Material Weakness – Debt Card Expenditures

The Academy did not have a formally approved policy governing purchasing procedures, specifically in relation to approval of expenditures, what determines a proper public purpose for the Academy's business, and what documentation should be maintained to support each expenditure made. There was no indication that the Academy's Board discussed expenditures or approved expenditures during its regular open sessions during fiscal year 2015.

The Academy's Superintendent excessively used a debit card for approximately 284 transactions during fiscal year 2015 totaling $67,928. The Academy did not have a formally approved policy regarding debit card usage. Supporting documentation for many of the debit card transactions were not maintained with the Treasurer. Instead, the Academy's Superintendent attempted to obtain supporting receipts as a result of the audit. The transactions were not recorded to the Academy's accounting system until the bank statements were received in the following month.

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

Additionally, the Academy made cash withdrawals totaling $648 during fiscal year 2015. Due to the nature of cash and its susceptibility to fraud or theft, public entities should never make cash payments to any vendor.

The Academy should have established and approved formal policies and procedures governing purchases and debit card usage. The policy governing the use of a debit card should have included authorized users, acceptable uses, supporting documentation required to be obtained, and a discussion of the consequences if the policy was not followed. Whenever possible, the Academy should have followed the normal purchasing process, including issuing actual checks processed through the accounting system for products and services purchased. When situations necessitated the need to use a debit card, the Academy should have maintained all supporting documentation and provided it to the Treasurer as soon as possible. The Board should have reviewed and approved a listing of all expenditures at each regular meeting in order to maintain proper oversight over the Academy's expenditures. Additionally, the Academy should never have made cash withdrawals to pay vendors.

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

Official's Response:

We did not receive a response from Academy officials regarding this finding.

FINDING NUMBER 2015-002

Material Weakness – Financial Statement Errors

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

The Academy prepared its annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The Academy's fiscal year 2015 financial statements contained the following errors that were determined to be material to the financial statements and have been adjusted:

- The Academy did not properly classify several transactions in the Statement of Cash Flows. Cash flows from operating activities were overstated by $5,840. Cash flows from noncapital financing activities and capital and related financing activities were understated by $5,839 and $1, respectively.
- The Academy did not properly account for its change in proportionate share related to its net pension liability. The Academy had a change in proportionate share of $452,422 during fiscal year 2015. The Academy reported the change in proportionate share as a reduction to net position at June 30, 2014 rather than recording a deferred outflow of resources and amortizing the impact over the service lives of employees provided with pensions. This resulted in the following errors:
  - Deferred Outflows of Resources: Pension was understated by $452,422
  - Operating Expense: Fringe Benefits was understated by $113,105
  - Net Position, June 30, 2014 was understated by $565,527

In addition, the following error was determined to be immaterial to the financial statements therefore it was not adjusted:

- The Academy did not report the balance of the Title I program as restricted net position, rather it was included in unrestricted net position. As a result, restricted net position was understated by $12,889 and unrestricted net position was overstated by $12,889.

The Academy should have verified that policies and procedures were in place to properly record all financial activity on the annual financial statements. A review system should have been in place to identify and correct any significant errors that occurred during the financial compilation process. Failure to do so could result in material misstatements going unnoticed and users of financial statements using incorrect amounts to make decisions about the Academy's operations.

Official's Response:

We did not receive a response from Academy officials regarding this finding.

FINDING NUMBER 2015-003

Significant Deficiency – Employee Payroll

The Academy utilized time sheets to track hourly employee time worked during fiscal year 2015.

The Superintendent did not submit approved time sheets or employee contracts to the Treasurer for payroll processing during fiscal year 2015. Rather, the Superintendent submitted an excel spreadsheet that included only the gross pay by employee for the pay period. As a result of errors in calculations used to complete the excel spreadsheet, the Academy's two hourly employees were not paid according to the hours reflected on their signed and approved time sheets as follows:

- For sixteen of twenty (80%) pay periods during fiscal year 2015, an employee was not paid in accordance with approved time sheets for a total overpayment of $119.
- For one of two (50%) pay periods during fiscal year 2015, an employee was not paid in accordance with approved time sheets for a total overpayment of $135.

In addition, a salary employee was paid $1,548 on October 15, 2014, however the employee's contracted salary rate was $1,458. The excel spreadsheet submitted to the Treasurer for payroll processing transposed numbers which resulted in a $90 overpayment.

Furthermore, on December 19, 2014 the Board approved a staff bonus of 1% of employees' salaries. An employee was paid a $200 bonus on December 23, 2014, however, this employee was an hourly employee and the bonus was calculated based on an annual salary of $20,000. There was no support provided for the method of calculating the $200 bonus for this employee.

The Academy should have implemented policies and procedures to verify that employees were paid in accordance with approved time sheets. Controls should have included submitting approved time sheets to the Treasurer or having more than one person review time sheets prior to submission to the Treasurer for payroll processing. Failure to correct the deficiencies in payroll processing could result in over- or under-payments to employees and potential losses for the Academy, as well as possible future findings for recovery against Academy employees and officials.

Official’s Response:

We did not receive a response from Academy officials regarding this finding.

FINDING NUMBER 2015-004

Noncompliance – Nepotism

Ohio Rev. Code § 3314.03(A)(11)(e) states that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school shall comply with Chapter 102 and section 2921.42 of the Revised Code.

Ohio Rev. Code § 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest.

FINDING NUMBER 2015-004 (Continued)

Section VII(E) of the Academy's By-Laws state that any Board Member, officer, key employee, or committee member having an interest in a contract, other transaction or program presented to or discussed by the Board or Board Committee for authorization, approval or ratification shall make a prompt, full and frank disclosure of his or her interest to the Board prior to its acting on such contract or transaction. Such disclosure shall include all relevant and material facts known to such person about the contract or transaction which might reasonably be constructed to be adverse to the Academy's interest. The body to which such disclosure is made shall thereupon determine, by majority vote, whether the disclosure shows that a conflict of interest exists or can reasonably be construed to exist.

During fiscal year 2015, the Academy's Superintendent, Bobbie Watkins-Tyree, hired the following relatives:

- Sister, Yvonne Watkins, was paid $1,560 as a summer school teacher. The employee contract and addendum to the contract was signed by Yvonne Watkins and Superintendent Bobbie Watkins-Tyree. No formal Board approval was documented regarding the hiring of Yvonne Watkins.
- Sister, Yvonne Watkins, was paid $26,250 as a lead teacher. The employee contract and addendum to the contract was signed by Yvonne Watkins and Office Manager Ginelle Simms under the direction of Superintendent Bobbie Watkins-Tyree. No formal Board approval was documented regarding the hiring of Yvonne Watkins.
- Father, Robert Watkins, was paid $36,548 as a Dean of Students. The employee contract and addendum to the contract was signed by Robert Watkins and Office Manager Ginelle Simms under the direction of Superintendent Bobbie Watkins-Tyree. No formal Board approval was documented regarding the hiring of Robert Watkins.

Policies should have been established and procedures implemented to provide that the Academy's officials did not use their influence or position to secure employment or pay for family members or associates. Officials should have fully disclosed any potential conflicts and abstained from making decisions that might be viewed as a conflict of interest. The Board should have approved the employment of all individuals and such approval should have been documented in the meeting minutes.

This issue has been referred to the Ohio Ethics Commission.

Official's Response:

We did not receive a response from Academy officials regarding this finding.

WATKINS ACADEMY
MONTGOMERY COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015

Finding Number	Finding Summary	Status	Additional Information
2014-001	Material Weakness - Financial Statement Errors	Not Corrected	Repeated as Finding 2015-002 The school closed effective 06.30.17 and there is no corrective action plan to correct deficiencies moving forward.
2014-002	Material Weakness - Debit Card / Purchasing Procedures	Not Corrected	Repeated as Finding 2015-001 The school closed effective 06.30.17 and there is no corrective action plan to correct deficiencies moving forward.
2014-003	Finding for Recovery – Unsupported Expenditures	Not Corrected	Academy has not received payment for this finding for recovery in the amount of $541. The school closed effective 06.30.17 and there is no corrective action plan to correct deficiencies moving forward.

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Watkins Academy
Montgomery County
4401 Dayton Liberty Road
Dayton, Ohio 45417

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 Watkins Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 and Ohio Rev. Code Section 3314.03(a)(11)(d) for the period ended June 30, 2015. 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. In our report dated May 20, 2015, we observed the Academy had not adopted an anti-harassment policy. We inspected the Board minutes and observed that the Board adopted an anti-harassment policy at its meeting on February 24, 2015. We inspected the policy, noting it does not include all requirements listed in Ohio Rev. Code 3313.666.

Ohio Rev. Code Section 3313.666(B) and Ohio Rev. Code Section 3314.03(a)(11)(d) specifies the following requirements must be included in anti-harassment policies. We inspected the policy for proper inclusion of these requirements:

1. A statement prohibiting harassment, intimidation, or bullying of any student on school property, on a school bus, or at school-sponsored events and expressly providing for the possibility of suspension of a student found responsible for harassment, intimidation, or bullying by an electronic act;

2. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666. The act defines that term as "any intentional written, verbal, electronic or physical act that a student has exhibited toward another particular student more than once and the behavior both (1) causes mental or physical harm to the other student, (2) is sufficiently severe, persistent, or pervasive that it creates an intimidating, threatening, or abusive educational environment for the other student," and violence within a dating relationship.;

3. A procedure for reporting prohibited incidents;

4. A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

5. A requirement that the custodial parent or guardian of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

6. A procedure for documenting any prohibited incident that is reported;

7. A procedure for responding to and investigating any reported incident;

8. A strategy for protecting a victim from new or additional harassment, intimidation, or bullying, and from retaliation following a report, including a means by which a person may report an incident anonymously;

9. A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

10. A statement prohibiting students from deliberately making false reports of harassment, intimidation, or bullying and a disciplinary procedure for any student responsible for deliberately making a false report of that nature;

11. A requirement that the administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

The policy lacks the following items noted above required by Ohio Rev. Code Section 3313.666.

1. A requirement that the custodial parent or guardian of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

2. A requirement that the administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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

Dave Yost
Auditor of State

July 30, 2018

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Dave Yost • Auditor of State

WATKINS ACADEMY

MONTGOMERY 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
SEPTEMBER, 13 2018

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