



Dave Yost • Auditor of State

DISCOVERY ACADEMY
LUCAS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Discovery Academy
Lucas County
2125 University Park Drive
Okemos, Michigan 48864

To the Governing Board:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Discovery Academy, Lucas County, Ohio, as of June 30, 2015, and the respective

changes in financial position and cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2016, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

May 27, 2016

**DISCOVERY ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

The management's discussion and analysis of Discovery Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should review the basic financial statements and 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 new reporting model adopted by the Governmental Accounting Standard Board (GASB) in its Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- Net position was (\$583,784) in 2015.
- Total assets were \$289,144 in 2015.
- Deferred outflows of resources were \$84,940 in 2015.
- Total liabilities were \$827,542 in 2015.
- Deferred inflows of resources were \$130,326 in 2015.

Using this Annual Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

The statement of net position and statement of revenues, expenses, and changes in net position answers the question, "How did we do financially during 2015?" These statements include all assets and liabilities, revenues and expenses 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 the account all revenues and expenses during the year, regardless of when cash is received or paid.

**DISCOVERY ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

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

TABLE 1	For the year ended	
	June 30, 2015	June 30, 2014 (restated)
Assets		
Current Assets	\$ 174,739	\$ 83,464
Capital Assets - Net	92,442	14,194
Other Noncurrent Assets	21,963	13,063
Total assets	289,144	110,721
Deferred Outflows of Resources		
Pension	84,940	41,264
Liabilities		
Current Liabilities	110,806	255,709
Noncurrent liabilities		
Due in More Than One Year		
Net Pension Liability	716,736	-
Total liabilities	827,542	255,709
Deferred Inflows of Resources		
Pension	130,326	-
Net Position		
Invested in capital assets—net of related debt	92,442	14,194
Unrestricted	(676,226)	(117,918)
Total net position	\$ (583,784)	\$ (103,724)

Net position decreased by \$480,060. Cash was \$118,693. Net Capital Assets increased by \$78,248 due to large number of technology purchases during second year of Academy's operation. Contracts Payable decreased by \$149,768 due to ongoing reimbursement of expenses to the management company. Accrued Wages and Benefits increased by \$78,154 due to increased staffing levels related to higher student count.

**DISCOVERY ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

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 earning 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 the 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 this 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.

**DISCOVERY ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from (\$144,988) to (\$103,724).

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

TABLE 2	2015	2014
Operating Revenues		
Foundation Payments	\$ 1,584,008	\$ 742,270
Food Services	-	5
Other Revenues	13,593	4,701
Total Operating Revenues	1,597,601	746,976
Operating Expenses		
Purchased Services	2,474,605	946,742
Materials and Supplies	93,922	69,406
Depreciation	20,085	5,824
Other expenses	30,601	32,013
Total Operating Expenses	2,619,213	1,053,985
Operating Loss	(1,021,612)	(307,009)
Non-operating Revenues and Expenses		
Federal Grants	279,760	98,660
State Grants	256,346	61,789
Refund of Prior Year Expenses	533	-
Contributions and Donations	5,755	7,650
Interest	(842)	(6,078)
Total Non-operating Revenues and Expenses	541,552	162,021
Change in Net Position	(480,060)	(144,988)
Net Position Beginning of Year (Restated)	(103,724)	N/A
Net Position End of Year	\$ (583,784)	\$ (103,724)

**DISCOVERY ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

Net position decreased by \$480,060. Purchased services increased \$1,527,863 primarily due to the entries needed to establish net pension liability under GASB 68 as well as increased student counts. Other expenses and revenues all increased due to higher student counts. Depreciation expense increased \$14,260 due to large number of technology purchases during second year of Academy operation.

The Academy began operations in fiscal year 2014; therefore it did not share in the net pension liability at the initial measurement date of 6/30/2013 and no restatement of net position due to net pension liability was required. Net position was restated to reflect the deferral of fiscal year 2014 contractually required contributions to fiscal year 2015. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Therefore, 2014 functional expenses still include pension expense of \$41,264 computed under GASB 27. 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 \$881,537. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$2,620,055
Pension expense under GASB 68	(881,537)
2015 contractually required contribution	78,152
Adjusted 2015 program expenses	1,816,670
Total 2014 program expenses under GASB 27	1,060,063
Increase in program expenses not related to pension	\$756,607

Capital Assets

At the end of fiscal year 2015, the Academy had \$92,442 invested in furniture, fixtures, and equipment (net of depreciation). Table 3 shows capital assets (net of depreciation) for fiscal year 2015.

TABLE 3	2015	2014
Furniture, fixtures and equipment	\$ 92,442	\$ 14,194

For more information on capital assets, see Note 6 to the basic financial statements.

**DISCOVERY ACADEMY
LUCAS COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

Debt Administration

The Academy's outstanding debt totaled \$6,667 at June 30, 2015. This represents the amount of the note principal borrowings from RBS Citizen Bank less principal payments during the fiscal year. The short-term loan balance of \$47,000 at June 30, 2014 was repaid in full during 2015.

Current Financial Issues

Discovery Academy was formed in 2013 under a contract with the Ohio Department of Education. During the 2014-2015 school year there were 228 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2015 amounted to \$1,584,008.

Contacting the School's Financial Management

The financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact Don Ash, Fiscal Officer of Discovery Academy, 2125 University Park Drive, Okemos, MI 48864 or e-mail at don.ash@leonagroup.com.

**DISCOVERY ACADEMY
LUCAS COUNTY**

STATEMENT OF NET POSITION
JUNE 30, 2015

Assets

Current Assets:

Cash and Cash Equivalents	\$ 118,693
Accounts Receivables	864
Intergovernmental Receivables	39,997
Prepaid Items	15,185
<i>Total Current Assets</i>	<u>174,739</u>

Non-Current Assets:

Security Deposits	21,963
Depreciable Capital Assets, Net	92,442
<i>Total Non-Current Assets</i>	<u>114,405</u>

<i>Total Assets</i>	<u>289,144</u>
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Deferred Outflows of Resources

Pension	<u>84,940</u>
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Liabilities

Current Liabilities:

Accounts Payable	4,876
Accrued Wages Payable	83,582
STRS-SERS Payable	4,137
Contracts Payable	8,099
Interest Payable	19
Notes Payable - Current Portion	6,667
Intergovernmental Payable	3,426
<i>Total Current Liabilities</i>	<u>110,806</u>

Non-Current Liabilities:

Due In More Than One Year	
Net Pension Liability	<u>716,736</u>

<i>Total Liabilities</i>	<u>827,542</u>
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Deferred Inflows of Resources

Pension	<u>130,326</u>
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Net Position

Invested in Capital Assets, Net of Related Debt	92,442
Unrestricted	<u>(676,226)</u>

<i>Total Net Position</i>	<u>\$ (583,784)</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DISCOVERY ACADEMY
LUCAS COUNTY**

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

Operating Revenues	
Foundation Payments	\$ 1,584,008
Other Revenues	13,593
	<hr/>
<i>Total Operating Revenues</i>	<i>1,597,601</i>
	<hr/>
Operating Expenses	
Purchased Services	2,474,605
Materials and Supplies	93,922
Depreciation	20,085
Other	30,601
	<hr/>
<i>Total Operating Expenses</i>	<i>2,619,213</i>
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<i>Operating Loss</i>	<i>(1,021,612)</i>
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Non-Operating Revenues and Expenses	
Federal Grants	279,760
State Grants	256,346
Refund of Prior Year Expenditures	533
Contributions and Donations	5,755
Interest and Fiscal Charges	(842)
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<i>Total Non-Operating Revenues and Expenses</i>	<i>541,552</i>
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<i>Change in Net Position</i>	<i>(480,060)</i>
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<i>Net Position Beginning of Year - Restated (Note 3)</i>	<i>(103,724)</i>
	<hr/>
<i>Net Position End of Year</i>	<i>\$ (583,784)</i>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DISCOVERY ACADEMY
LUCAS 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:

<u>Cash Received from State of Ohio</u>	\$ 1,582,220
Cash Received from Other Operating Revenues	12,106
Cash Payments to Suppliers for Goods and Services	<u>(1,868,429)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(274,103)</u>

Cash Flows from Noncapital Financing Activities:

Other Non-Operating Revenues	
Federal Grants Received	267,394
State Grants Received	259,640
Refund of Prior Year Expenditures	533
Proceeds from Short Term Loans	41,300
Payment of Short Term Loans	(88,300)
Proceeds from Notes	60,000
Principal Payments	(93,333)
Interest Payments	<u>(935)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>446,299</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(94,134)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(94,134)</u>

<i>Net Increase in Cash and Cash Equivalents</i>	<u>78,062</u>
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<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>40,631</u>
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<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 118,693</u></u>
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(Continued)

**DISCOVERY ACADEMY
LUCAS COUNTY**

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

**Reconciliation of Operating Loss to Net
Cash Used by Operating Activities:**

Operating Loss	\$ (1,021,612)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	20,085
Donated noncapitalized equipment	692
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(3,217)
Increase in Prepaid Items	(60)
Increase in Deposits	(8,900)
Increase in Deferred Outflows	(43,676)
Increase in Accounts Payable	1,938
Increase in Intergovernmental Payable	3,350
Increase in STRS-SERS Payable	1,849
Increase in Accrued Wages Payable	78,154
Decrease in Contracts Payable	(149,768)
Increase in Net Pension Liability	716,736
Increase in Deferred Inflows	<u>130,326</u>
<i>Total Adjustments</i>	<u>747,509</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ (274,103)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DISCOVERY ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Discovery Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to empower students with tools that they may not otherwise have access to due to economic constraints. There is a need to enable them to envision the world beyond their own neighborhood. It is our desire to expose them to people and places they never would have had an opportunity to meet or see. They will be empowered to see the difference they can make in their own community as they engage in project-based learning. Understanding and using technology will be an integral part of virtually every aspect of daily life for our students. It is our mission to transform the learning process with technology-infused projects beneficial to the community, while promoting collaboration, global awareness, and high student achievement. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy is sponsored under a contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2013. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. For 2015, the Academy paid \$54,349 to the Sponsor.

The Academy operates under the direction of a five member Governing Board. 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. The Governing Board controls the Academy's instructional/support facility staffed by 13 non-certificated personnel and 27 certificated teaching personnel who provide services to 228 students.

The Governing Board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of its school. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee.

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 revenue, expenses, and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

**DISCOVERY ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

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

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the 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.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$1,000 for furniture and equipment, library books, land, and buildings, or any one item costing under \$1,000 alone but purchased in a group for over \$2,500. Software costing more than \$10,000 per application is also capitalized. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**DISCOVERY ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Capital Assets (continued)

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

Furniture, Fixtures and Equipment	7 years
EDP Equipment and Software	3 years
Non-EDP Equipment	6 years

F. Operating Revenues and Expenses

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

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Security Deposit

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$13,063, is held by the lessor. The Academy paid a \$10,000 deposit to Karen Rose Auction Company for the right to purchase up to that amount in equipment from another academy that closed last year. The auction was held on June 30, 2015. Total purchases were actually \$1,100, and a refund for the difference (\$8,900) was received on July 17, 2015.

I. 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.

In addition to liabilities, the statements of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Academy, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the Academy's net pension liability. Deferred inflows of resources related to pension are reported on the statement of net position.

**DISCOVERY ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Pension

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.

3. CHANGE IN ACCOUNTING PRINCIPLE 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 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. The Academy began operations in fiscal year 2014 and therefore did not have a share in net pension liability at the initial measurement date of June 30, 2013. Net position at June 30, 2014 was not restated for net pension liability.

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	(\$144,988)
Payments Subsequent to Measurement Date	<u>41,264</u>
Restated Net Position June 30, 2014	<u><u>(\$103,724)</u></u>

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

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LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

4. DEPOSITS

At June 30, 2015, the carrying amount of all Academy deposits was \$118,693. As of June 30, 2015, the Academy's bank balance was not exposed to custodial risk as discussed below, and all funds were covered by the Federal Deposit Insurance Corporation (the "FDIC").

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

5. RECEIVABLES

Receivables at June 30, 2015, consisted mostly of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

<u>Intergovernmental Receivables</u>	<u>June 30, 2015</u>
Title I	\$ 19,879
Child Nutrition	16,902
Medicaid Ohio Health Plan	1,487
Due from other academy	17
ODE Audit Adjustment	<u>1,712</u>
Total Intergovernmental Receivable	<u>\$ 39,997</u>
 <u>Accounts Receivable</u>	
Computer Dealers Inc.	<u>\$ 864</u>

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(Continued)**

6. CAPITAL ASSETS

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

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$ 20,018	\$ 98,333	\$ -	\$118,351
Total Capital Assets Being Depreciated	20,018	98,333	-	118,351
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(5,824)	(20,085)	-	(25,909)
Total Accumulated Depreciation	(5,824)	(20,085)	-	(25,909)
Total Capital Assets Being Depreciated, Net	\$ 14,194	\$ 78,248	\$ -	\$ 92,442

7. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Academy contracted with Philadelphia Insurance Company for general liability, property insurance and educational errors and omissions insurance.

Coverage is as follows:

Educator's Legal Liability:	
Part 1, D&O Liability, each claim	\$1,000,000
Part 2, Employment Practices, each claim	1,000,000
Aggregate, All Parts	1,000,000
General Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Personal and ADV Injury	1,000,000
Automobile - Hired and Not Owned CSL	1,000,000
Property:	
Personal Property	50,000
BI	100,000
Umbrella	6,000,000

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

7. RISK MANAGEMENT (continued)

B. Workers' Compensation

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.

8. 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. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

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.

Age and service requirements for retirement are as follows:

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

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

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

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

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

The Academy's contractually required contribution to SERS was \$14,467 for fiscal year 2015. 76.07 percent has been contributed.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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

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

**DISCOVERY ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

C. Plan Description - State Teachers Retirement System (STRS) (continued)

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The 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 \$63,685 for fiscal year 2015. 100 percent has been contributed.

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

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

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$100,156	\$616,580	\$716,736
Proportion of the Net Liability	.001979%	.00253492%	
Pension Expense	\$6,063	\$23,323	\$29,386

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$852	\$5,936	\$6,788
Academy contributions subsequent to the measurement date	<u>14,467</u>	<u>63,685</u>	<u>\$78,152</u>
Total Deferred Outflows of Resources	<u>\$15,319</u>	<u>\$69,621</u>	<u>\$84,940</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$16,256</u>	<u>\$114,070</u>	<u>\$130,326</u>
Total Deferred Inflows of Resources	<u>\$16,256</u>	<u>\$114,070</u>	<u>\$130,326</u>

\$78,152 reported as deferred outflows of resources related to pension resulting from the Academy's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	(\$3,851)	(\$27,034)	(\$30,885)
2017	(3,851)	(27,034)	(30,885)
2018	(3,851)	(27,034)	(30,885)
2019	<u>(3,851)</u>	<u>(27,032)</u>	<u>(30,883)</u>
	<u>(\$15,404)</u>	<u>(\$108,134)</u>	<u>(\$123,538)</u>

E. 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.

**DISCOVERY ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (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, 2014, are presented below:

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

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

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

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

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(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$142,893	\$100,156	\$64,211

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(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

F. 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	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

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FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions - STRS (continued)

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

Sensitivity of the 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	\$882,702	\$616,580	\$391,531

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

9. POSTEMPLOYMENT BENEFITS (continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Academy's surcharge obligation was \$1,022.

The Academy's contributions for health care for the fiscal years ended June 30, 2015 and 2014 were \$901 and \$83, respectively. 76.07 percent and 100 percent has been contributed for fiscal years 2015 and 2014, respectively.

B. State Teachers Retirement System of Ohio

Plan Description – The School District 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.

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(Continued)**

9. POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System of Ohio (continued)

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 \$2,544, respectively. 100 percent has been contributed for fiscal year 2014.

10. CONTINGENCIES

A. Student Attendance and Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2015, if applicable, cannot be determined at this time.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this could result in 'either a receivable to or liability of the Academy'.

**DISCOVERY ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

11. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2015, purchased service expenses were payments for services rendered by various vendors and expenses recorded to establish net pension liability, as follows:

<u>Purchased Services</u>	<u>Amount</u>
Salaries	\$ 667,128
Fringe Benefits	989,035
Other Professional and Technical Services	25,653
The Leona Group, LLC	255,774
Legal Services	2,500
Ohio Department of Education	54,349
Cleaning Services	4,395
Repairs and Maintenance	9,140
Building Rental	156,750
Other Rentals	7,374
Communication	7,374
Advertising	200
Utilities	26,813
Contracted Food Service	104,454
Pupil Transportation	163,666
Total Purchased Services	<u>\$2,474,605</u>

12. OPERATING LEASE

The Academy entered into a lease with The Sisters of Notre Dame of Toledo, Ohio, for the period July 1, 2013 through June 30, 2016. Rent payments for the fiscal period consist of \$156,750 for base rent and \$24,750 for operating rent to cover Academy's share of utilities.

A security deposit in the amount of \$13,063 is held by the landlord.

The following is a schedule of the future combined minimum payments required under the operating lease as of June 30, 2015.

Fiscal Year Ending June 30,	Facility Lease
2016	<u>\$189,750</u>

**DISCOVERY ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

13. NOTES PAYABLE

Debt Activity during fiscal year 2015 was as follows:

	Balance at 06/30/2014	Additions	Reductions	Balance at 06/30/2015
RBS Citizens NA	\$ 40,000	\$ 60,000	\$ 93,333	\$ 6,667
The Leona Group, LLC	47,000	41,300	88,300	-
Total	<u><u>\$ 87,000</u></u>	<u><u>\$101,300</u></u>	<u><u>\$ 181,633</u></u>	<u><u>\$ 6,667</u></u>

The Academy entered into a loan with RBS Citizens NA Bank for \$60,000 on September 26, 2014. The note was used to pay for general operations of the Academy. The note had a floating interest rate equal to the Prime Rate and has a maturity date of June 30, 2015. The final payment was made on July 1, 2015.

The Academy received short term loans from The Leona Group to pay for general operations of the Academy. The June 30, 2014 balance of \$47,000 plus an additional \$41,300 in loans during fiscal year 2015 was paid in full by May 14, 2015.

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective May 23, 2013 through June 30, 2018, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12% of the per pupil expenditures. The amount paid to TLG for fiscal period 2015 totaled \$255,774. Terms of the contracts require TLG to provide the following:

- A. implementation and administration of the Educational Program;
- B. management of all personnel functions, including professional development;
- C. operation of the school building and the installation of technology integral to school design;
- D. all aspects of the business administration of the Academy;
- E. the provision of food service for the Academy; and
- F. any other function necessary or expedient for the administration of the Academy.

**DISCOVERY ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT (continued)

Also, there are expenses that are billed to the Academy based on the actual costs incurred for the Academy by The Leona Group, LLC. These expenses include salaries of The Leona Group, LLC employees working at the Academy, and other costs related to providing educational and administrative services.

For the year ended June 30, 2015, those expenses are as follows:

<u>Related Party Transactions</u>	<u>Amount</u>
Salaries	\$ 667,128
Benefits	185,649
Advertising	115
Communications	314
Contracted Trades	1,529
Materials and Supplies	3,991
Other Direct Costs	3,903
Other Professional and Technical Services	15,850
 Total Related Party Transactions	 <u>\$ 878,479</u>

At June 30, 2015, the Academy had payables to The Leona Group, LLC in the amount of \$8,099. The following is a schedule of payables to The Leona Group, LLC:

<u>Balance Due to The Leona Group, LLC</u>	<u>Amount</u>
Management Fees	\$ 6,184
Payroll	36
Miscellaneous	1,879
Total	<u>\$ 8,099</u>

**DISCOVERY ACADEMY
LUCAS COUNTY**

*REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TWO FISCAL YEARS*

	<u>2014</u>	<u>2013</u>
<i>State Teachers Retirement System (STRS)</i>		
Academy's proportion of the net pension liability (asset)	0.00253492%	n/a
Academy's proportionate share of the net pension liability (asset)	\$ 616,580	n/a
Academy's covered-employee payroll	\$ 254,431	n/a
Academy's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	242.34%	n/a
Plan fiduciary net position as a percentage of the total pension liability	74.70%	n/a
<i>School Employees Retirement System (SERS)</i>		
Academy's proportion of the net pension liability (asset)	0.00197900%	n/a
Academy's proportionate share of the net pension liability (asset)	\$ 100,156	n/a
Academy's covered-employee payroll	\$ 59,076	n/a
Academy's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	169.54%	n/a
Plan fiduciary net position as a percentage of the total pension liability	71.70%	n/a

n/a - Academy began operations in FY 2014 and does not share in the net pension liability at the initial measurement date of 6/30/2013

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

**DISCOVERY ACADEMY
LUCAS COUNTY**

*REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ACADEMY CONTRIBUTIONS
LAST THREE FISCAL YEARS*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>State Teachers Retirement System (STRS)</i>			
Contractually Required Contribution	\$ 63,685	\$ 33,076	n/a
Contributions in Relation to the Contractually Required Contribution	<u>(63,685)</u>	<u>(33,076)</u>	<u>n/a</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>n/a</u>
Academy's covered-employee payroll	\$ 454,893	\$ 254,431	n/a
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	n/a
 <i>School Employees Retirement System (SERS)</i>			
Contractually required contribution	\$ 15,368	\$ 8,188	n/a
Contributions in relation to the contractually required contribution	<u>(15,368)</u>	<u>(8,188)</u>	<u>n/a</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>n/a</u>
Academy's covered-employee payroll	\$ 116,601	\$ 59,076	n/a
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	n/a

n/a - Academy began operations in FY 2014

**DISCOVERY ACADEMY
LUCAS COUNTY**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

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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

Discovery Academy
Lucas County
2125 University Park Drive
Okemos, Michigan 48864

To the Governing Board:

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 Discovery Academy, Lucas County, (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated May 27, 2016, wherein we noted the Academy adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*.

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

May 27, 2016



Dave Yost • Auditor of State

DISCOVERY ACADEMY

LUCAS 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
JUNE 21, 2016**