

Northpointe Academy
Lucas County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

Board of Education
Northpointe Academy
3648 Victory Ave.
Toledo, Ohio 43607

We have reviewed the *Independent Auditor's Report* of the Northpointe Academy, Lucas County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northpointe Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 28, 2017

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Northpointe Academy
Lucas County, Ohio
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December 14, 2016

To the Board of Directors
Northpointe Academy
Lucas County, Ohio
3648 Victory Ave.
Toledo, Oh 43607

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Northpointe Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of the Academy's Proportionate Share of the Net Pension Liability, and the Schedule of Academy Contributions on pages 4-9, 37, and 38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

Hea & Associates, Inc.

Lima, Ohio

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NORTHPOINTE ACADEMY
Lucas County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

The management's discussion and analysis of Northpointe Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the academy's financial performance as a whole; readers should 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 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 Governments*, 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

In 2016,

- Total net position was (\$2,519,721).
- Total assets were \$563,485.
- Deferred outflows of resources were \$429,240.
- Total liabilities were \$3,332,194.
- Deferred inflows of resources were \$180,252.

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.

Northpointe Academy Financial Activities

Statement of Net Position; Statement of Revenue, Expenses, and Changes in Net Position; and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer this question. These statements include all assets, liabilities, deferred outflows and inflows of resources, revenues and expenses, both financial and capital, 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 the account all revenues and expenses during the year, regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, 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. These statements can be found on pages 10 and 11 of this report. The Statement of Cash Flows can be found on pages 12-13.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 14-36 of this report.

NORTHPOINTE ACADEMY
Lucas County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Table 1 provides a summary of the Academy's net position for fiscal years 2016 and 2015:

TABLE 1

	June 30	
	2016	2015
Assets		
Current assets	\$ 468,194	\$ 306,173
Capital assets - net	95,291	121,587
Total assets	563,485	427,760
Deferred Outflows of Resources		
Pension	429,240	199,436
Total deferred outflows of resources	429,240	199,436
Liabilities		
Current liabilities	238,593	260,119
Noncurrent liabilities		
Due in more than one year		
Net pension liability	3,093,601	2,605,901
Total noncurrent liabilities	3,093,601	2,605,901
Total liabilities	3,332,194	2,866,020
Deferred Inflows of Resources		
Pension	180,252	469,927
Total Deferred Inflows of Resources	180,252	469,927
Net Position		
Investment in capital assets	95,291	109,089
Unrestricted	(2,615,012)	(2,817,840)
Total net position	\$ (2,519,721)	\$(2,708,751)

NORTHPOINTE ACADEMY
Lucas County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(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 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.

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.

NORTHPOINTE ACADEMY
Lucas County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Total net position for the Academy increased \$189,030. Cash increased \$165,068 due to increases in revenues outpacing increases in expenses. Accounts Payable – Related Party decreased \$24,431 due to reduced bonus payments. The beginning capital lease balance of \$12,498 was paid in full during the fiscal year.

The fluctuation in the deferred outflows of resources, deferred inflows of resources, and net pension liability are related to GASB 68. These accounts are included in the calculation of the net pension liability and represent changes in expected and actual experience, projected and actual earnings on investments, and change in proportion. See Note 8 and required supplementary information on page 38 for further information.

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NORTHPOINTE ACADEMY
Lucas County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Change in Net Position

Table 2 shows the changes in net position for fiscal years 2016 and 2015, as well as a listing of revenues and expenses.

TABLE 2

	June 30	
	2016	2015
Operating Revenues		
Foundation payments	\$ 2,653,265	\$ 2,527,195
Food services	1,415	-
Other revenues	45,546	27,308
 Nonoperating Revenues		
Federal grants	739,773	698,045
State grants	449,343	396,281
Contributions and donations	8,389	335
Other nonoperating Revenue	-	14,785
Total revenue	3,897,731	3,663,949
 Operating Expenses		
Purchased services	3,391,781	3,110,773
Materials and supplies	194,315	147,434
Depreciation (unallocated)	48,620	43,536
Other expenses	60,163	68,571
 Nonoperating Expenses		
Interest and fiscal charges	984	8,927
Taxes	3,737	4,340
Loss on disposal of assets	-	2,665
Other nonoperating expenses	9,101	-
Total expenses	3,708,701	3,386,246
 Increase in net position	\$ 189,030	\$ 277,703

Net position increased \$189,030. Other revenues increased \$18,238 mostly due to a Medicaid settlement. The Academy did not take out a state aid anticipation note in fiscal year 2016, which resulted in a decrease in interest expense of \$7,943. Increases in Foundation payments and purchased services are mainly attributable to slight increases in student count.

NORTHPOINTE ACADEMY
Lucas County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Capital Assets

At the end of fiscal year 2016, the Academy had \$95,291 invested in furniture, EDP equipment and software, non-EDP equipment, vehicles, and leasehold improvements (net of depreciation). Table 3 shows capital assets (net of depreciation) for the fiscal years 2016 and 2015.

TABLE 3	<u>Net Capital Assets</u>	
	June 30	
	2016	2015
Leasehold improvements	\$ 9,212	\$ 13,831
Furniture	14,308	19,301
EDP equipment and software	59,640	71,403
Non-EDP equipment	9,979	14,463
Vehicles	2,152	2,589
Total capital assets	<u>\$ 95,291</u>	<u>\$121,587</u>

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

Capital Lease

On March 28, 2013, the Academy entered into a capital lease with VAR Resources for EDP equipment with a value of \$40,037. Principal payments during the fiscal year totaled \$12,498. The lease was paid in full on May 5, 2016.

For more information on the capital lease, see Note 13 to the basic financial statements.

Current Financial Issues

Northpointe Academy was formed in 2007 under a contract with the Ohio Council of Community Schools. During the 2015-2016 school year there were 372 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2016 amounted to \$2,653,265.

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 Northpointe Academy, 2125 University Park Drive, Okemos, MI 48864 or e-mail at don.ash@leonagroup.com.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Statement of Net Position
June 30, 2016

Assets	
<u>Current Assets:</u>	
Cash and cash equivalents	\$343,283
Accounts receivable	669
Intergovernmental receivables	101,739
Prepaid items	22,503
Total Current Assets	468,194
<u>Non-Current Assets:</u>	
Capital assets:	
Depreciable capital assets, net	95,291
Total Assets	563,485
Deferred Outflows of Resources	
Pension	429,240
Total Deferred Outflows of Resources	429,240
Liabilities	
<u>Current Liabilities:</u>	
Accounts payable	45,962
Accounts payable - related party	152,205
STRS-SERS payable	2,556
Intergovernmental payable	7,606
Contracts payable	30,264
Total Current Liabilities	238,593
<u>Non-Current Liabilities:</u>	
Due in more than one year	
Net pension liability	3,093,601
Total Liabilities	3,332,194
Deferred Inflows of Resources	
Pension	180,252
Total Deferred Inflows of Resources	180,252
Net Position	
Invest{ ^} cin capital assets	15,291
Unrestricted (deficit)	(2,615,012)
Total Net Position	(\$2,519,721)

NORTHPOINTE ACADEMY
Lucas County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Operating Revenues	
Foundation payments	\$2,653,265
Food services	1,415
Other Revenues	45,546
Total Operating Revenues	2,700,226
Operating Expenses	
Purchased services (Note 11)	3,391,781
Materials and supplies	194,315
Depreciation	48,620
Other	60,163
Total Operating Expenses	3,694,879
Operating Loss	(994,653)
Non-Operating Revenues and Expenses	
Federal grants	739,773
State grants	449,343
Taxes	(3,737)
Contributions and donations	8,389
Other non-operating expenses	(9,101)
Interest and fiscal charges	(984)
Total Non-Operating Revenues and Expenses	1,183,683
Change in Net Position	189,030
Net Position Beginning of Year	(2,708,751)
Net Position End of Year	(\$2,519,721)

NORTHPOINTE ACADEMY
Lucas County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Increase in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash received from State of Ohio	\$2,638,556
Cash received for food services	746
Cash received from other operating revenues	31,851
Cash payments to suppliers for goods and services	<u>(3,670,227)</u>

Net Cash Used for Operating Activities (999,074)

Cash Flows from Noncapital Financing Activities:

Federal grants received	764,587
State grants received	453,975
Taxes	(4,940)
Other non-operating expenses	(712)
Interest payments	<u>(1,464)</u>

Net Cash Provided by Noncapital Financing Activities 1,211,446

Cash Flows from Capital and Related Financing Activities:

Payments for capital acquisitions	(34,806)
Capital lease principal payments	<u>(12,498)</u>

Net Cash Used for Capital and Related Financing Activities (47,304)

Net Increase in Cash and Cash Equivalents 165,068

Cash and Cash Equivalents at Beginning of Year 178,215

Cash and Cash Equivalents at End of Year \$343,283

(Continued)

NORTHPOINTE ACADEMY
Lucas County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016
(continued)

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

Operating loss	(\$994,653)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used by Operating Activities**

Depreciation	48,620
Changes in assets and liabilities:	
Increase in accounts receivable	(669)
Increase in intergovernmental receivable	(22,757)
Increase in prepaid items	(2,973)
Increase in deferred outflows	(229,804)
Increase in accounts payable	18,771
Increase in contracts payable	8,970
Decrease in accrued wages and benefits	(24,431)
Decrease in intergovernmental payable	(729)
Increase in STRS-SERS payable	2,556
Increase in net pension liability	487,700
Decrease in deferred inflows	(289,675)

Total Adjustments	(4,421)
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Net Cash Used by Operating Activities	(\$999,074)
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Non-cash transaction

The Academy capitalized \$12,482 of accounts payable in fiscal year 2015

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Northpointe Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to prepare its students for future success through challenging and relevant curriculum combined with meaningful instruction and opportunities for leadership. The Academy is committed to preparing its students to be successful in a constantly evolving and information-centered society. They will introduce key concepts to each student, such as social tolerance and understanding as well as academic excellence, while creating a relevant learning environment. In doing so, students will receive the highest quality education and be encouraged and guided to embrace critical thinking in every aspect of their lives through the use of information technology and business concepts. 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.

On March 14, 2007, the Academy was approved for operation under contract with the Ohio Council of Community Schools (the "Sponsor") for a period of five years through June 20, 2012. This contract has since been renewed through June 30, 2018. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The total sponsor fees paid to the Ohio Council of Community Schools for the fiscal year ended June 30, 2016 totaled \$90,357.

The Academy operates under the direction of a five-member board of directors, which is also the governing board for another The Leona Group, LLC-managed school. The board of directors 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 thirty-six non-certified personnel and eighteen certificated teachers who provide services to 372 students.

The board of directors 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 (see Note 14).

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 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.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(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 deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net 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. Cash and Cash Equivalents

Cash received by the Academy is reflected as "cash and cash equivalents" on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2016.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. 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 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. All reported capital assets are depreciated.

The Academy implemented a revised capitalization policy effective with the fiscal year ended June 30, 2016. Details can be found in Note 3.

G. 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.

H. 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.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position 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 consist of pension. The deferred outflows of resources related to pension are reported on the statement of net position (See Note 8).

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 until that time. For the Academy, deferred inflows of resources consist of pension. Deferred inflows of resources related to pension are reported on the statement of net position (See Note 8).

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.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

3. CHANGE IN ACCOUNTING ESTIMATE – CAPITALIZATION THRESHOLDS

On April 21, 2015, and beginning with the fiscal year ended June 30, 2016, the Board of Directors approved a policy to increase the cost threshold for capitalizing most capital assets. This was done in order to more closely conform to Federal recommendations. Cost thresholds and useful lives by asset type are as follows:

<u>Asset type</u>	<u>Thresholds</u>	<u>Useful life</u>
Computer/EDP Equipment	Individual item - \$5,000 Aggregate of like items on a single purchase order - \$12,500	3 years
Office/Non-EDP Equipment	Individual item - \$5,000 Aggregate of like items on a single purchase order - \$12,500	6 years
Furniture (includes carpet and other shorter-lived improvements in owned buildings)	Individual item - \$5,000 Aggregate of like items on a single purchase order - \$12,500	7 years
Vehicles	Any new; professional judgement for pre-owned	8 years for new; professional judgement for pre-owned
Software	\$10,000	3 years
Educational media and textbooks	\$5,000	5 years
Land and inexhaustible land improvements	\$5,000	Not depreciable
Owned buildings	No lower limit	39 years
Modular buildings	Any new; professional judgement for pre-owned	15 years for new; professional judgement for pre-owned
Improvements to owned buildings that significantly add to value	Subject to professional judgement but not less than \$25,000	Concurrent with building's remaining useful life
Depreciable site improvements to owned property	Subject to professional judgement but not less than \$25,000	15 years
Leasehold improvements including building and site (includes floor coverings and other short-lived fixtures)	Subject to professional judgement but not less than \$25,000	For the life of the lease. Useful life may be adjusted upon lease renewal subject to professional judgement.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

4. DEPOSITS

The Academy has designated one bank for the deposit of its funds. The Academy's deposits consist solely of checking and/or savings accounts at local banks; therefore, the Academy has not adopted a formal investment policy.

A. Custodial Credit Risk of Bank Deposits

At June 30, 2016, the carrying value of all deposits was \$342,933. The Academy had \$350 in petty cash.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. Of the Academy's bank balance of \$353,932, \$250,000 was covered by Federal depository insurance and \$103,932 was exposed to custodial credit risk.

5. RECEIVABLES

Receivables at June 30, 2016 consisted mainly of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

Receivables	
<u>Source</u>	<u>As of June 30, 2016</u>
Intergovernmental Receivable:	
Title I	\$ 23,078
Title I SIG	14,407
Title IIa	7,560
Child nutrition	21,087
Medicaid	17,534
Casino tax revenue	9,693
Due from other academies	980
Final adjustment from ODE	7,400
	7,400
Total intergovernmental receivable	\$ 101,739
Accounts Receivable:	
Food sales to pupils	\$ 669
Total accounts receivable	\$ 669

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

6. CAPITAL ASSETS

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

Capital Asset Activity

<u>Capital Assets</u>	<u>Balance 6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/16</u>
Capital assets being depreciated:				
Furniture	\$ 34,886	\$ -		\$ 34,886
EDP equipment and software	159,556	22,324	879	181,001
Non-EDP equipment	26,847			26,847
Leasehold improvements	23,030			23,030
Vehicles	3,500	-	-	3,500
Total depreciable capital assets	247,819	22,324	879	269,264
Less accumulated depreciation:				
Furniture	(15,585)	(4,993)		(20,578)
EDP equipment and software	(88,153)	(34,087)	(879)	(121,361)
Non-EDP equipment	(12,384)	(4,484)		(16,868)
Leasehold improvements	(9,199)	(4,619)		(13,818)
Vehicles	(911)	(437)		(1,348)
Total accumulated depreciation	(126,232)	(48,620)	(879)	(173,973)
Total depreciable capital assets - net	\$ 121,587	\$ (26,296)	\$ -	\$ 95,291

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

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 2016, the Academy contracted with Philadelphia Indemnity Insurance Company for general liability, property insurance and educational errors and omissions insurance.

Coverage is as follows:

Insurance Coverages

<u>Type</u>	<u>Limits</u>
Educational Errors and Omissions:	
Part 1, D&O Liability	\$1,000,000
Part 2, Employment Practices	1,000,000
Aggregate, All Parts	2,000,000
General Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Personal & ADV Injury	1,000,000
Automobile - Hired and Not Owned CSL	1,000,000
Property:	
Personal	255,000
BI	500,000
Umbrella	15,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. Any changes in coverage from the previous year are due to converting all TLG-managed academies to one policy with common limits.

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.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

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 STRS-SERS payable.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(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 Employees/Audit Resources.

Age and service requirements for retirement are as follows:

<u>Benefits</u>	<u>Eligible to Retire on or before August 1, 2017*</u>	<u>Eligible to Retire On or After August 1, 2017</u>
Full	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	Age 60 with 5 years of service credit, or 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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

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

The Academy's contractually required contribution to SERS was \$59,834 for fiscal year 2016. 95.23 percent has been contributed for fiscal year 2016.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(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 website 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.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(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, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$139,957 for fiscal year 2016. The full amount has been contributed for fiscal year 2016.

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 686,061	\$ 2,407,540	\$3,093,601
Proportion of the net liability	0.01202330%	0.00871127%	
Pension expense	\$ 55,218	\$ 112,794	\$ 168,012

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(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, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 10,586	\$ 109,397	\$ 119,983
Change in proportionate share	63,120	46,346	109,466
Academy contributions subsequent to the measurement date	59,834	139,957	199,791
Total deferred outflows of resources	\$ 133,540	\$ 295,700	\$ 429,240
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ 13,945	\$ 166,307	\$ 180,252
Total deferred inflows of resources	\$ 13,945	\$ 166,307	\$ 180,252

\$199,791 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Amortization of Deferred Outflows and Deferred Inflows

Fiscal Year Ending			
<u>June 30</u>	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ 14,686	\$ (25,327)	\$ (10,641)
2018	14,686	(25,327)	(10,641)
2019	14,638	(25,325)	(10,687)
2020	15,751	65,415	81,166
Total to be amortized	\$ 59,761	\$ (10,564)	\$ 49,197

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

8. DEFINED BENEFIT PENSION PLANS (continued)

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.

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

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

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

Calculating Total Pension Liability - SERS

<u>Method</u>	<u>Assumption</u>
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.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

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 average 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 asset class are summarized in the following table:

Real Rates of Return - SERS

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

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

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

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.

Sensitivity to Changes in Discount Rate - SERS

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Academy’s proportionate share of the net pension liability	\$ 951,320	\$ 686,061	\$ 462,691

F. Actuarial Assumptions - STRS

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

Calculating Total Pension Liability - STRS

<u>Method</u>	<u>Assumption</u>
Inflation	2.75 percent
Projected Salary Increases	12.25 percent at age 20 to 2.75 percent at age 70
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 commences on fifth anniversary of retirement date

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

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

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

8. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

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:

Real Rates of Return - STRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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><u>100.00</u></u> %	

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

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

8. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

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:

Sensitivity to Changes in Discount Rate - STRS

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Academy's proportionate share of the net pension liability	\$ 3,344,255	\$ 2,407,540	\$ 1,615,408

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.

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.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

9. POSTEMPLOYMENT BENEFITS (continued)

A. School Employees Retirement System (continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. 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, 2016, 2015, and 2014 are listed in the table below:

Contribution for Health Care Including Surcharge - SERS

Fiscal Year Ended <u>June 30</u>	<u>Surcharge</u>	<u>Healthcare</u>	<u>Total</u>	<u>Percent Contributed</u>
2016	\$ 6,392	\$ -	\$ 6,392	100%
2015	5,469	2,970	8,439	100%
2014	5,107	429	5,536	100%

B. State Teachers Retirement System of Ohio

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

9. POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System of Ohio (continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 are listed in the table below:

Contribution for Health Care - STRS

Fiscal Year Ended June 30	Amount	Percent Contributed
2016	\$ -	N/A
2015	-	N/A
2014	8,458	100%

10. CONTINGENCIES

A. 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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2016.

B. Ohio Department of Education Enrollment Review

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the schools, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 or June 30, 2016 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

11. PURCHASED SERVICE EXPENSES

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

Purchased Services	
<u>Category</u>	<u>FY2016</u>
Salaries	\$1,412,197
Fringe benefits	435,294
Other professional and technical services	132,050
The Leona Group, LLC	461,679
Legal services	572
Ohio Council of Community Schools	90,357
Cleaning services	28,221
Repairs and maintenance	32,230
Building rental	180,000
Other rentals	9,822
Communication	47,366
Advertising	3,874
Utilities	64,512
Contracted food service	223,147
Pupil transportation	<u>270,460</u>
Total purchased services	<u><u>\$3,391,781</u></u>

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

12. OPERATING LEASES

On June 27, 2013, the Academy entered into two building lease agreements with The Leona Group, LLC (TLG). The first building is located at 3650 Victory Avenue in Toledo, Ohio, and the second building is located at 540 Independence Road, also in Toledo, Ohio. The lease periods are from July 1, 2013 through June 30, 2018. Rent expense for the buildings was \$120,000 and \$60,000, respectively, for the year ended June 30, 2016.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2016:

Future Minimum Rent Due

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 180,000
2018	<u>180,000</u>
Total minimum lease payments	<u><u>\$ 360,000</u></u>

13. CAPITAL LEASE

The Academy has entered into a lease agreement as lessee for financing the purchase of equipment. The lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is secured by the equipment. The equipment is valued at historical cost. The table below shows activity related to the leased assets and capital lease as well as the future minimum lease payments as of the year ended June 30, 2016. The lease was paid in full on May 5, 2016.

Capital Lease Activity

<u>Owed To</u>	<u>Balance at 6/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2016</u>
VAR Resources	\$ 12,498	\$ -	\$ 12,498	\$ -
Total capital lease activity	<u>\$ 12,498</u>	<u>\$ -</u>	<u>\$ 12,498</u>	<u>\$ -</u>

Cost and Value of Leased Assets

	<u>Balance at 06/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 06/30/2016</u>
Cost of assets	\$ 36,779	\$ -		\$ 36,779
Less accumulated depreciation	<u>(27,550)</u>	<u>(9,229)</u>		<u>(36,779)</u>
Total leased asset activity	<u>\$ 9,229</u>	<u>\$ (9,229)</u>	<u>\$ -</u>	<u>\$ -</u>

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT

The Academy entered into a contract, effective July 1, 2008 through June 30, 2012, with The Leona Group, LLC (TLG) for educational management services for all of the management, operations, administration, and education at the Academy. The contract provides for automatic one year renewals and is currently effective through June 30, 2016. In exchange for its services, TLG receives a capitation fee of 12% of revenue. The Academy incurred capitation fees of \$461,679 for the 2016 fiscal year.

Terms of the management contract requires 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.

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 rent, salaries of The Leona Group, LLC. employees working at the Academy, and other costs related to providing educational and administrative services.

Related Party Transactions

<u>Type</u>	<u>FY2016</u>
Salaries	\$ 1,412,197
Benefits	467,073
Communications	1,155
Contracted trades	3,104
Materials and supplies	4,134
Other direct costs	18,944
Other professional and technical services	<u>39,657</u>
 Total related party transactions	 <u><u>\$ 1,946,264</u></u>

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(continued)

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT (continued)

At June 30, 2016, the Academy had a balance due to The Leona Group, LLC in the amount of \$30,264. This consists mostly of outstanding management fees and pending reimbursements. The following is a schedule of payables to The Leona Group, LLC:

<u>Balance Due to The Leona Group, LLC</u>	<u>June 30, 2016</u>
Management fees	\$ 20,603
Miscellaneous	<u>9,661</u>
Total	<u>\$ 30,264</u>

NORTHPOINTE ACADEMY
Lucas County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
State Teachers Retirement System (STRS)			
Academy's proportion of the net pension liability (asset)	0.00871127%	0.00850863%	0.00850863%
Academy's proportionate share of the net pension liability (asset)	\$ 2,407,540	\$ 2,069,593	\$ 2,465,286
Academy's covered-employee payroll	\$ 908,871	\$ 845,823	\$ 769,238
Academy's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	264.89%	244.68%	320.48%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)			
Academy's proportion of the net pension liability (asset)	0.01202330%	0.01059700%	0.01059700%
Academy's proportionate share of the net pension liability (asset)	\$ 686,061	\$ 536,308	\$ 630,170
Academy's covered-employee payroll	\$ 361,950	\$ 306,255	\$ 274,971
Academy's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	189.55%	175.12%	229.18%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

NORTHPOINTE ACADEMY
Lucas County, Ohio
Required Supplementary Information
Schedule of Academy Contributions
Last Nine Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
State Teachers Retirement System (STRS)									
Contractually Required Contribution	\$ 139,957	\$ 127,242	\$ 109,957	\$ 100,001	\$ 95,438	\$ 77,288	\$ 23,657	\$ 23,699	\$ 26,720
Contributions in Relation to the Contractually Required Contribution	<u>(139,957)</u>	<u>(127,242)</u>	<u>(109,957)</u>	<u>(100,001)</u>	<u>(95,438)</u>	<u>(77,288)</u>	<u>(23,657)</u>	<u>(23,699)</u>	<u>(26,720)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's covered-employee payroll	\$ 999,693	\$ 908,871	\$ 845,823	\$ 769,238	\$ 734,138	\$ 594,523	\$ 181,977	\$ 182,300	\$ 205,538
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
School Employees Retirement System (SERS)									
Contractually required contribution	\$ 59,834	\$ 47,705	\$ 42,447	\$ 38,056	\$ 34,877	\$ 32,417	\$ 8,251	\$ 4,934	\$ 5,479
Contributions in relation to the contractually required contribution	<u>(59,834)</u>	<u>(47,705)</u>	<u>(42,447)</u>	<u>(38,056)</u>	<u>(34,877)</u>	<u>(32,417)</u>	<u>(8,251)</u>	<u>(4,934)</u>	<u>(5,479)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's covered-employee payroll	\$ 427,386	\$ 361,950	\$ 306,255	\$ 274,971	\$ 259,309	\$ 257,892	\$ 60,938	\$ 50,142	\$ 55,794
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

(1) Information prior to FY2008 not available

NORTHPOINTE ACADEMY
Lucas County, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2016

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

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for fiscal year 2016. See the notes to the basic financial statements 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 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for fiscal year 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

December 14, 2016

To the Board of Directors
Northpointe Academy
Lucas County, Ohio
3648 Victory Ave.
Toledo, Oh 43607

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northpointe Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

Lima, Ohio

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Dave Yost • Auditor of State

NORTHPOINTE 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
MARCH 14, 2017**