



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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CAPITAL HIGH SCHOOL
FRANKLIN COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2014
Fiscal Year Audited Under GAGAS: 2014



Dave Yost • Auditor of State

Board of Education
Capital High School
640 Harrisburg Pike
Columbus, Ohio 43223

We have reviewed the *Independent Auditor's Report* of the Capital High School, Franklin County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Capital High School is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

February 10, 2015

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CAPITAL HIGH SCHOOL
FRANKLIN COUNTY
YEAR ENDED JUNE 30, 2014

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Capital High School
Franklin County
640 Harrisburg Pike
Columbus, Ohio 43223

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of Capital High School, Franklin County, Ohio, (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School'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 School'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 School'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 the Capital High School, Franklin County, Ohio, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 December 19, 2014, on our consideration of the School'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 School's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 19, 2014

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The discussion and analysis of Capital High School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the School for fiscal year 2014 are as follows:

- Total assets increased \$205,859
- Total liabilities increased \$162,979
- Total net position increased \$42,880.
- Total operating and non-operating revenues were \$2,320,500. Total operating expenses were \$2,277,620.

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 Change in Fund Net Position, and a Statement of Cash Flows.

REPORTING THE SCHOOL AS A WHOLE

One of the most important questions asked about the School is, "As a whole, what is the School's financial condition as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how the School did financially during fiscal year 2014. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

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

The School uses enterprise presentation for all of its activities.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2014. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net position for fiscal years 2014 and 2013.

**Table 1
Statement of Net Position**

	2014	2013
Assets		
Current Assets	\$ 228,482	\$ 22,623
Total Assets	\$ 228,482	\$ 22,623
 Liabilities		
Current Liabilities	\$ 185,602	\$ 22,623
Total Liabilities	185,602	22,623
 Net Position		
Unrestricted	42,880	-
Total Net Position	\$ 42,880	\$ -

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the School's net position totaled \$42,880.

Current assets represent cash and cash equivalents and intergovernmental receivable. Current liabilities represent accounts payable, intergovernmental payable, accrued expenses and amounts owed to the management company at fiscal year-end.

Total assets increased \$205,859, which is primarily due to an increase in enrollment of 106 resulting in additional cash on hand and an increase in grant receivables. Current liabilities increased \$162,979 due to payables do to the management company.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in net position for fiscal year 2014 and 2013, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2 – Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating Revenue		
State Aid	\$ 2,069,001	\$ 1,254,065
Other	16,096	6,262
	<u>2,085,097</u>	<u>1,260,327</u>
Operating Expenses		
Purchased Services	2,046,889	1,263,098
State Retirement	94,659	62,188
Sponsor Fees	61,231	37,622
Legal Fees	24,018	8,410
Accounting	24,340	25,170
Insurance	7,358	-
Directors Fees	19,125	-
	<u>2,277,620</u>	<u>1,396,488</u>
Operating (Loss)	(192,523)	(136,161)
Non-Operating Revenues		
Federal Grants	235,403	136,161
Debt Forgiveness: Edison Learning	-	1,010,535
	<u>235,403</u>	<u>1,146,696</u>
Increase in Net Position	<u>\$ 42,880</u>	<u>\$ 1,010,535</u>

State Aid increased by \$814,936 due to an increase of 106 in enrollment. Purchased services increased by \$783,791 due to increased costs associated with salaries and benefits that are paid through the management company.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

BUDGETING HIGHLIGHTS

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its Sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, annually.

CURRENT FINANCIAL ISSUES

The School is a community school and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue. In fiscal year 2014, the State raised the base per pupil funding to \$5,800, which is up from the \$5,745 in the previous year.

The full-time equivalent enrollment of the School for the year ended June 30, 2014 was 304.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of students.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 640 Harrisburg Pike, Columbus Ohio 43223 or e-mail at dave@massasolutionsllc.com.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**Statement of Net Position
At June 30, 2014**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 164,515
Intergovernmental Receivable	63,967
Total Current Assets	<u>228,482</u>

Total Assets	<u>\$ 228,482</u>
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Liabilities

Current Liabilities:

Accounts Payable	\$ 20
Intergovernmental Payable	50,296
Accrued Expenses	12,720
Edison Payable	122,566
Total Current Liabilities	<u>185,602</u>

Total Liabilities	185,602
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Net Position

Unrestricted	<u>42,880</u>
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Total Net Position	<u>\$ 42,880</u>
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See accompanying notes to the basic financial statements

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**Statement of Revenues,
Expenses and Change in Net Position
For the Year Ending June 30, 2014**

Operating Revenues

State Aid	\$ 2,069,001
Other Revenue	16,096
Total Operating Revenues	<hr/> 2,085,097

Operating Expenses

Purchased Services: Edison Learning	2,046,889
State Retirement	94,659
Sponsor Fees	61,231
Legal Fees	24,018
Accounting	24,340
Insurance	7,358
Directors Fees	19,125
Total Operating Expenses	<hr/> 2,277,620

Operating (Loss) (192,523)

Non-Operating Revenues

Federal Grants	235,403
Total Non-Operating Revenues	<hr/> 235,403

Change in Net Position 42,880

Net Position, Beginning of Year

-

Net Position, End of Year

\$ 42,880

See accompanying notes to the basic financial statements

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014**

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 2,066,374
Cash Received from Other Sources	24,198
Cash Payments to State Retirement Systems	(44,363)
Cash Payments to Suppliers for Goods and Services	(2,070,278)
Net Cash Used for Operating Activities	<u>(24,069)</u>

Cash Flows from Non-capital Financing Activities

Cash Received from Federal Grants	<u>177,319</u>
Net Cash Provided by Non-capital Financing Activities	177,319

Net Increase in Cash and Cash Equivalents 153,250

Cash and Cash Equivalents, Beginning of Year 11,265

Cash and Cash Equivalents, End of Year \$ 164,515

**RECONCILIATION OF OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Operating Loss \$ (192,523)

Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable	(2,627)
Decrease in Accounts Receivable	8,102
Increase in Intergovernmental Payable	50,296
Decrease in Accounts Payable	(2,317)
Decrease in Accrued Expenses	(1,678)
Decrease in Edison Payable	116,678
Total Adjustments	<u>168,454</u>

Net Cash Used for Operating Activities (24,069)

See accompanying notes to the basic financial statements

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF THE ENTITY

Capital High School, (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The School operates on a foundation, which fosters character building for all students, parents and staff members. The School, 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 School may acquire facilities as needed and contract for any services necessary for the operation of the School. The School may sue and be sued. The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course or action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School was approved for operation under a contract with the Education Resource Consultants of Ohio ("ERCO") (the Sponsor) for a one year period commencing on June 30, 2013. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff. The School has contracted with Edison Learning, Inc. to act as a management company for the School (see Note 10).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

The Government Accounting Standards Board requires the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the entity's measurement focus. The enterprise activity is accounted for using a flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Change in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position. The Statement of Cash Flows provides information about how the School finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The School's financial statements are prepared using the accrual basis of accounting.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided for in the School's sponsorship agreement. The contract between the School and its Sponsor requires a detailed budget for each year of the contract.

D. Cash and Cash Equivalents

Cash received by the School is reflected as "Cash and Cash Equivalents" on the Statement of Net Position. The School did not have any investments during the fiscal year ended June 30, 2014.

E. Estimates

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

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues (Continued)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in various federal programs passed through the Ohio Department of Education.

Under the above programs the School recognized revenue of \$2,069,001 this fiscal year from the Foundation Program and \$235,403 from Federal grants.

G. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore the School does not accrue vacation time as a liability.

Sick/personal leave benefits are earned by full-time employees at the rate of eight days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

H. Accrued Liabilities

The obligations incurred by the School but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of intergovernmental payable of \$50,296, accounts payable of \$20, accrued expenses of \$12,720, and Edison payable totaling \$122,566 at June 30, 2014.

I. Exchange and Non-Exchange Transactions

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 School 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 School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on the use through external restriction imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2014.

L. Change in Accounting Principles

For fiscal year 2014, the School has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the School.

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The School maintains its cash balances at one financial institution, Chase Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2014, the book amount of the School's deposits was \$164,515 and the bank balance was \$166,940.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

3. CASH AND CASH EQUIVALENTS (Continued)

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2014, none of the bank balance was exposed to custodial credit risk.

4. ACCOUNTS RECEIVABLE

The School has Federal receivables in the amount of \$63,967 at June 30, 2014. This receivable represents cash revenue earned, but not received as of June 30, 2014.

5. RISK MANAGEMENT

Property & Liability

The School 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 the fiscal year ending June 30, 2014, the School contracted with Willis of New York, Inc. for nonprofits and maintained general liability insurance with a \$1,250,000 single occurrence limit and \$20,000,000 annual aggregate and a combined policy aggregate coverage for various liability coverage in the amount of \$25,000,000.

6. DEFINED BENEFIT PENSIONS PLANS

A. School Employees Retirement System (SERS Ohio)

Plan Description – Edison Learning on behalf of the School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting School Employees Retirement System, 300 North Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at www.ohsers.org under Employer/ Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ended June 30, 2014, the allocation to pension and death benefits is 13.10%. The remaining .90% of the

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

6. DEFINED BENEFIT PENSIONS PLANS (Continued)

A. School Employees Retirement System (SERS Ohio) (Continued)

14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$15,013 \$14,040 and \$15,015, respectively, which equaled the required contributions for each year.

B. State Teachers Retirement System (STRS Ohio)

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contribution service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

6. DEFINED BENEFIT PENSIONS PLANS (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated. Benefits are increased annually by 3 percent of the original base amount for DB Plan participants. The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers.

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. For fiscal years 2013 and 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Schools was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

6. DEFINED BENEFIT PENSIONS PLANS (Continued)

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$28,572, \$39,750 and \$26,280, respectively, which is equal to 100 percent that has been contributed for each fiscal year. There were no contributions to the DC and Combined Plans for fiscal year 2014.

7. POST EMPLOYMENT BENEFITS

A. School Employee Retirement System (SERS Ohio)

Plan Description - In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School's contribution for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012 was \$871, \$742 and \$804; 100 percent has been contributed for all fiscal years.

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is .14%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the years ended June 30, 2014, 2013 and 2012 were \$1,373, \$644 and \$888 respectively; 100 percent has been contributed for all fiscal years.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

7. POST EMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (SERS Ohio) (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System (STRS Ohio)

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contribution for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$2,041, \$2,242 and \$1,877, respectively; 100 percent has been contributed for all fiscal years.

8. CONTINGENCIES

A. Grants and ADM

The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. This also encompasses the Auditor of State's ongoing review of student attendance data. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the School. In fiscal year 2014, the School received grants from Federal agencies totaling \$235,403.

B. Litigation

There are currently no matters in litigation with the School as defendant.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

8. CONTINGENCIES (Continued)

C. Full-Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

9. SPONSOR CONTRACT

The School contracted with the Education Resource Consultants of Ohio ("ERCO") as its sponsor to perform oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2014, the total sponsorship fees paid totaled \$61,231.

10. AGREEMENT WITH EDISON LEARNING, INC./ PURCHASED SERVICES EXPENSE

On April 7, 2010, the School contracted with Edison Learning, Inc. to provide educational programs that offer educational excellence and educational innovation based on Edison Learning, Inc.'s unique school design, comprehensive educational programs, and management principles. The contract period ends on June 30, 2015, and may be renewed for an additional five-year term. Under the contract, Edison Learning, Inc. is responsible and accountable to the School's Board of Directors for the administration, operation, and performance of the School in accordance with the School's contract with ERCO to operate the School. Significant provisions of the contract are as follows:

On August 14, 2012, the School entered into an Amendment to the Amended and Restated Service Agreement and an Asset Purchase Agreement with Edison Learning, Inc., in which Edison Learning agreed to purchase certain assets of the School in exchange for the forgiveness of the Edison note and other debts. The assets exchanged had a value of \$35,616 and accumulated depreciation of \$3,562 and the debt forgiven was \$1,042,589 for a net debt forgiveness of \$1,010,535.

Significant provisions of the contract are as follows:

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit monthly to Edison Learning, Inc. any excess of revenues over expenditures, if so exist, as compensation for the variety of educational and management services it provides under the Agreement with the total management fee not to exceed 20%. During fiscal year 2014, revenues exceeded expenditures and Edison Learning was paid a management fee of \$464,100, which is included in purchased services.

2. The School's Financial Responsibility

The School is responsible for initial startup costs and rent. The School is also responsible to pay for sponsor and legal fees directly related to activities of the Board.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

10. AGREEMENT WITH EDISON LEARNING, INC./PURCHASED SERVICES EXPENSE (Continued)

3. Edison Financial Responsibilities

Edison Learning, Inc. is responsible for costs associated with operating the School. Such costs shall include, but shall not be limited to, salaries and benefits, including payroll taxes; pension and retirement; the purchase of curriculum materials, textbooks, computers and other equipment, software, and supplies; insurance premiums, utilities, janitorial services, and financial management services related to the operation of the School and repairs and maintenance of the School's facilities, except for capital repair. Edison Learning, Inc. shall equip the School's facilities with desks and other furniture and furnishings and these items are considered property of Edison Learning, Inc. Edison Learning, Inc. must secure and maintain commercial general liability coverage for bodily injury and property damage; educator liability coverage; automobile liability insurance, for, personal injury and property damage; property insurance for facilities; and workers' compensation insurance for employees.

4. Budget

Edison Learning, Inc. shall provide the School with an annual budget, in reasonable detail, by April 15 of each fiscal year for the following fiscal year.

B. Educational Services

Edison Learning, Inc. provides educational services to dropout prevention and recovery schools, in addition to Edison's financial responsibilities noted above.

C. Personnel

All personnel working at the School are employees of the School.

D. Agreement Termination

1. Termination by the School

The School may terminate the contract in the event Edison Learning, Inc. materially breaches the contract and Edison Learning, Inc. fails to remedy such breach within 90 days of its receipt of written notice of such breach from the School.

2. Termination by Edison Learning, Inc.

Edison Learning, Inc. may terminate the contract in the event the School materially breaches the contract and the School fails to remedy such breach within 90 days of its receipt of written notice of such breach from Edison Learning, Inc.

**CAPITAL HIGH SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

10. AGREEMENT WITH EDISON LEARNING, INC./PURCHASED SERVICES EXPENSE (Continued)

E. Edison Learning, Inc. - Purchased Services

For the fiscal year ended June 30, 2014, Edison Learning, Inc. incurred the following expenses on behalf of the School:

Direct Site Expenses:

Salaries and Wages and Benefits	\$ 696,849
Professional and Technical Services	585,958
Property Services	183,550
Curriculum and materials	448,368
Other Direct Costs	<u>132,164</u>
Total Expenses	<u>\$ 2,046,889</u>



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Capital High School
Franklin County
640 Harrisburg Pike
Columbus, Ohio 43223

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Capital High School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the School'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 School'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 School'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 School'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 School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 19, 2014



Dave Yost • Auditor of State

CAPITAL HIGH SCHOOL

FRANKLIN 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
FEBRUARY 24, 2015**