



Dave Yost • Auditor of State

GLASS CITY ACADEMY
LUCAS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Glass City Academy
Lucas County
1000 Monroe Street
Toledo, Ohio 43604

To the Governing Board:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

February 29, 2016

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, net position was a deficit of \$300,491 at June 30, 2015.
- The Academy had operating revenues of \$1,683,516 and operating expenses of \$1,583,901 for fiscal year 2015. The Academy had \$102,798 in nonoperating revenues and expenses for fiscal year 2015. The total change in net position for the fiscal year was an increase of \$202,413.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

Statement of Net Position, Statement of Revenues, 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 2015?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and changes in those assets. 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.

The statement of cash flows provides information about how the Academy finances and is meeting the cash flow needs of its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

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LUCAS COUNTY, OHIO**

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report as presents certain required supplementary information concerning the Academy's net pension liability.

The table below provides a summary of the Academy's net position for fiscal years 2015 and 2014.

	Net Position	
	<u>2015</u>	Restated <u>2014</u>
<u>Assets</u>		
Current assets	\$ 1,914,311	\$ 1,721,066
Capital assets, net	<u>2,446</u>	<u>7,255</u>
Total assets	<u>1,916,757</u>	<u>1,728,321</u>
<u>Deferred outflows of resources</u>		
Pension	<u>141,746</u>	<u>122,984</u>
<u>Liabilities</u>		
Current liabilities	95,326	71,826
Non-current liabilities:		
Due within one year	2,718	3,752
Due in more than than one year	-	2,817
Net pension liability	<u>1,917,065</u>	<u>2,275,913</u>
Total liabilities	<u>2,015,109</u>	<u>2,354,308</u>
<u>Deferred inflows of rosources</u>		
Pension	<u>343,885</u>	<u>-</u>
<u>Net Position</u>		
Net investment in capital assets	(272)	785
Restricted	-	50
Unrestricted (deficit)	<u>(300,219)</u>	<u>(503,739)</u>
Total net position (deficit)	<u>\$ (300,491)</u>	<u>\$ (502,904)</u>

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LUCAS COUNTY, OHIO**

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

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the Academy's net position totaled a deficit of \$300,491. The overall increase of \$202,413 in net position is partially due to a decrease of \$358,848 in net pension liability. The increase in cash and cash equivalents was the result of the Academy receiving additional grants and aid from the State.

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 District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

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

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

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LUCAS COUNTY, OHIO**

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

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.

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$1,650,025 to a deficit of \$502,904.

The table below shows the changes in net position for fiscal years 2015 and 2014. The net position at June 20, 2014 has been restated as described in Note 3.

	<u>2015</u>	<u>Restated 2014</u>
<u>Operating Revenues:</u>		
State foundation	\$ 1,461,995	\$ 1,382,322
Special education	219,001	158,261
Other operating revenue	<u>2,520</u>	<u>2,338</u>
Total operating revenue	<u>1,683,516</u>	<u>1,542,921</u>
<u>Operating Expenses:</u>		
Salaries and wages	880,907	874,603
Fringe benefits	239,874	266,956
Purchased services	349,351	330,784
Materials and supplies	49,160	25,971
Depreciation	4,809	5,666
Other	<u>59,800</u>	<u>68,390</u>
Total operating expenses	<u>1,583,901</u>	<u>1,572,370</u>
<u>Non-operating revenues:</u>		
Federal and State grants	101,277	101,720
Interest income	1,759	1,756
Interest and fiscal charges	<u>(238)</u>	<u>(421)</u>
Total non-operating revenues	<u>102,798</u>	<u>103,055</u>
Change in net position	202,413	73,606
Net position (deficit) at beginning of year (restated)	<u>(502,904)</u>	<u>(576,510)</u>
Net position (deficit) at end of year	<u>\$ (300,491)</u>	<u>\$ (502,904)</u>

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation basic aid. State foundation basic aid and special education attributed to 94.09% of total operating and non-operating revenues during fiscal year 2015. Salaries and fringe benefits comprise

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

70.75% of operating expenses.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 operating expenses still include pension expense of \$122,984 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$90,095. Consequently, in order to compare 2015 total operating expenses to 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 6	\$ 1,583,901
Pension expense under GASB 68	
2015 contractually required contributions	(90,095)
Net pension liability	<u>123,820</u>
Adjusted 2015 operating expenses	1,617,626
Total 2014 operating expenses under GASB 2	<u>1,572,370</u>
Increase in operating expenses not related to pension	<u>\$ 45,256</u>

Capital Assets and Debt Administration

At June 30, 2015, the Academy's net investment in capital assets was a negative \$272. The Academy had \$2,446 in capital assets, net of depreciation. See Note 5 in the notes to the basic financial statements for more detail on capital assets.

At June 30, 2015, the Academy's long-term obligations consisted of a capital lease obligation of \$2,718. For further information regarding the Academy's long-term obligations, refer to Notes 6 and 10 to the basic financial statements.

Current Financial Related Activities

The utilization of the Educational Service Center of Lake Erie West as the Academy's fiscal agent greatly improves the internal control structure and quality of its financial records. During the 2014-2015 school year, there were approximately 223 students enrolled in the Academy.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for State and federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Dan Lamb, Treasurer at Glass City Academy, 40 Hill Road South, Pickerington, Ohio or email at dlamb@charterschoolspec.com

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**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2015

Assets:	
Current assets:	
Cash with cash equivalents.	\$ 1,789,904
Receivables:	
Intergovernmental.	90,694
Prepayments	15,713
Security deposit.	<u>18,000</u>
Total current assets	<u>1,914,311</u>
Non-current assets:	
Depreciable capital assets, net	<u>2,446</u>
Total assets.	<u>1,916,757</u>
 Deferred outflows of resources:	
Pension - STRS.	98,296
Pension - SERS.	<u>43,450</u>
Total deferred outflows of resources	<u>141,746</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	1,112
Accrued wages and benefits	77,339
Pension obligation payable.	10,710
Intergovernmental payable	<u>6,165</u>
Total current liabilities	<u>95,326</u>
Non-current liabilities:	
Due within one year.	2,718
Pension liability.	<u>1,917,065</u>
Total non-current liabilities	<u>1,919,783</u>
Total liabilities	<u>2,015,109</u>
 Deferred inflows of resources:	
Pension - STRS.	266,821
Pension - SERS.	<u>77,064</u>
Total deferred inflows of resources	<u>343,885</u>
 Net position:	
Investment in capital assets.	(272)
Unrestricted (deficit).	<u>(300,219)</u>
Total net position.	<u>\$ (300,491)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

Operating revenues:	
Foundation revenue	\$ 1,461,995
Special education.	219,001
Other operating revenue.	2,520
Total operating revenues	<u>1,683,516</u>
Operating expenses:	
Salaries and wages.	880,907
Fringe benefits.	239,874
Purchased services.	349,351
Materials and supplies	49,160
Depreciation	4,809
Other.	59,800
Total operating expenses.	<u>1,583,901</u>
Operating income.	<u>99,615</u>
Non-operating revenues (expenses):	
Federal and state grants.	101,277
Interest revenue	1,759
Interest and fiscal charges	(238)
Total nonoperating revenues (expenses)	<u>102,798</u>
Change in net position	202,413
Net position (deficit) at beginning of year (restated)	<u>(502,904)</u>
Net position (deficit) at end of year	<u><u>\$ (300,491)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from state foundation	\$ 1,590,302
Cash received from other operations	2,520
Cash payments for salaries and wages.	(857,547)
Cash payments for fringe benefits	(267,650)
Cash payments for contractual services	(356,445)
Cash payments for materials and supplies	(49,160)
Cash payments for other expenses	(59,906)
	2,114
Net cash provided by operating activities.	
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	101,277
	101,277
Net cash provided by noncapital financing activities.	
Cash flows from capital and related financing activities:	
Interest and fiscal charges	(238)
Principal retirement on capital lease	(3,752)
	(3,990)
Net cash used in capital and related financing activities.	
Cash flows from investing activities:	
Interest received	1,759
	1,759
Net cash provided by investing activities	
Net increase in cash and cash cash equivalents	
	101,160
Cash and cash equivalents at beginning of year	1,688,744
Cash and cash equivalents at end of year	\$ 1,789,904
	1,789,904
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 99,615
Adjustments:	
Depreciation	4,809
Changes in assets and liabilities:	
(Increase) in intergovernmental receivable	(90,694)
Decrease in prepayments	(1,391)
Decrease in accounts payable.	(5,046)
Increase in accrued wages and benefits.	29,910
Increase in intergovernmental payable.	887
(Decrease) in pension obligation payable.	(2,251)
(Decrease) in long-term pension deferred inflows and outflows	(33,725)
	(33,725)
Net cash provided by operating activities.	\$ 2,114
	2,114

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ACADEMY

Glass City Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's mission is to provide a second chance for dropout and highly at-risk youth to complete high school, learn readily marketable work skills and explore post-secondary training options. The underlying philosophy of the Academy is that all students have a right to a challenging high school education with a focus on the future, provided in a manner that addresses individual academic, social and behavioral needs. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Educational Service Center of Lake Erie West (the "Sponsor") for a period of five years commencing September 8, 2004. The Academy renewed the contract with the Sponsor through June 30, 2017. 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 sponsorship agreement states the Treasurer of the Educational Service Center of Lake Erie West shall serve as the Chief Fiscal Officer of the Academy (See Note 11).

The Academy operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 15 non-certified and 14 certified full-time teaching personnel who provide services to 223 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. 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.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Measurement Focus

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

C. Basis of Accounting

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

Revenues 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. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are 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

The Academy is required to submit a five-year budget forecast with the Ohio Department of Education, c/o Superintendent of Public Instruction.

E. Cash

The Academy's fiscal agent, the Educational Service Center of Lake Erie West, accounts for all monies received by the Academy. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for presentation on the statement of net position, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

At June 30, 2015, the Academy did not have any investments.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Basic Aid, State Special Education and Race to the Top grants. Revenues received from State Foundation Basic Aid and State Special Education 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 all eligibility requirements have been met. Eligibility includes 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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$2,000. 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. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5 years

I. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position invested in capital assets consists 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.

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

J. 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 from the State. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

K. Estimates

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

L. Security Deposit

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$18,000, is held by the lessor and may be used towards the last two months of rent or towards the purchase price of the property, if the Academy exercises its option to purchase (See Note 13).

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2015, the Academy has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government

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FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES – (Continued)

operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Academy.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the Academy's pension plan disclosures, as presented in Note 8 to the financial statements, and added required supplementary information.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The net position at July 1, 2014 has been restated as follows:

Net position as previously reported	\$ 1,650,025
Deferred outflows - payments	
subsequent to measurement date	122,984
Net pension liability	<u>(2,275,913)</u>
Restated net position at July 1, 2014	<u>\$ (502,904)</u>

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

NOTE 4 - DEPOSITS

At June 30, 2015, the carrying amount of all Academy deposits was \$1,789,904. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$1,300,306 of the Academy's bank balance of \$1,800,306 was exposed to custodial risk as discussed below, while \$500,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

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

NOTE 4 - DEPOSITS - (Continued)

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>Balance 06/30/14</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/15</u>
Capital Assets Being Depreciated:				
Furniture, Fixtures and Equipment	\$ 170,144	\$ -	\$ -	\$ 170,144
Total Capital Assets Being Depreciated	<u>170,144</u>	<u>-</u>	<u>-</u>	<u>170,144</u>
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	<u>(162,889)</u>	<u>(4,809)</u>	<u>-</u>	<u>(167,698)</u>
Total Accumulated Depreciation	<u>(162,889)</u>	<u>(4,809)</u>	<u>-</u>	<u>(167,698)</u>
Capital Assets, Net	<u>\$ 7,255</u>	<u>\$ (4,809)</u>	<u>\$ -</u>	<u>\$ 2,446</u>

NOTE 6 - CAPITALIZED LEASE - LESSEE DISCLOSURES

The Academy entered into capital lease agreements in March 2011 for copiers. The leases both meet the criteria of a capital lease. The capital leases are recorded at the present value of the future minimum lease payments as of the inception date. Principal payments made during fiscal year 2015 totaled \$3,752.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2015:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2016	\$ <u>2,771</u>
Total minimum lease payments	2,771
Less: amount representing interest	<u>(53)</u>
Total	<u>\$ 2,718</u>

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FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - RISK MANAGEMENT

A. Insurance Coverage

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

Coverage is as follows:

Commercial General Liability per occurrence	\$1,000,000
Commercial General Liability aggregate	3,000,000
Damage to Rented Premises	500,000
Personal and Advertising Injury Liability	1,000,000
Products - Completed/Operations aggregate	3,000,000

The Academy owns no property, but leases a facility located at 1000 Monroe Street, Toledo, Ohio (See Note 13).

Settled claims have not exceeded commercial coverage in the past three years and there have been no significant reductions in insurance coverage from fiscal year 2014.

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.

C. Employee Benefits

The Academy provides medical, dental, and vision insurance to its full-time employees who work a minimum of 30 hours weekly.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension obligation payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible Retire on or before August 1, 2017*	Eligible Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of services
*Members with 25 years of service credit as of August 1, 2017, will be included in this plan		

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

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

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

The Academy's contractually required contribution to SERS was \$39,409 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$84,411 for fiscal year 2015.

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

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

	SERS	STRS	Total
Proportionate Share of the Net			
Pension Liability	\$ 474,818	\$ 1,442,247	\$ 1,917,065
Proportionate of the Net Pension			
Liability	0.93820000%	0.59294500%	
Pension Expense	\$ 28,092	\$ 62,003	\$ 90,095

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and			
actual experience	\$ 4,041	\$ 13,885	\$ 17,926
Academy's contributions subsequent to the			
measurement date	39,409	84,411	123,820
Total Deferred Outflows of Resources	\$ 43,450	\$ 98,296	\$ 141,746
Deferred Inflows of Resources			
Net difference between projected and			
actual earnings on pension plan investments	\$ 77,064	\$ 266,821	\$ 343,885
Total Deferred Inflows of Resources	\$ 77,064	\$ 266,821	\$ 343,885

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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$123,820 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	\$ (18,256)	\$ (63,234)	\$ (81,490)
2017	(18,256)	(63,234)	(81,490)
2018	(18,256)	(63,234)	(81,490)
2019	<u>(18,256)</u>	<u>(63,234)</u>	<u>(81,490)</u>
Total	<u>\$ (73,024)</u>	<u>\$ (252,936)</u>	<u>\$ (325,960)</u>

Actuarial Assumptions - SERS

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

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

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

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

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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the

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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 677,424	\$ 474,818	\$ 304,408

Actuarial Assumptions - STRS

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

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

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

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

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

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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 2,064,734	\$ 1,442,247	\$ 915,833

NOTE 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

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NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)

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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Academy's surcharge obligation was \$3,593.

The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$5,901, \$3,788, and \$3,982, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

B. State Teachers Retirement System

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)

fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$6,009, and \$6,181 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

NOTE 10 - LONG TERM OBLIGATIONS

The long-term obligations at June 30, 2014 have been restated, as described in Note 3.A. The Academy's long term obligations activity for the fiscal year ended June 30, 2015, was as follows:

	Restated Balance Outstanding <u>06/30/14</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/15</u>	Amounts Due in <u>One Year</u>
Net pension liability	\$2,275,913	\$ -	\$ (358,848)	\$1,917,065	\$ -
Capital leases payable	<u>6,470</u>	<u>-</u>	<u>(3,752)</u>	<u>2,718</u>	<u>2,718</u>
Total	<u>\$2,282,383</u>	<u>\$ -</u>	<u>\$ (362,600)</u>	<u>\$1,919,783</u>	<u>\$ 2,718</u>

Capital Lease Obligation - See Note 6 for details.

Net Pension Liability - See Note 8 for details.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

NOTE 11 - FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Educational Service Center of Lake Erie West to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Educational Service Center of Lake Erie West 2% of the State Foundation, Local, State and Federal Funds except for the Cleveland Clinic and Rotary Funds. A total contract payment of \$33,869 was paid during the fiscal year. This contract ended June 30, 2015.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 12 - PURCHASED SERVICES

For the year ended June 30, 2015, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 126,473
Property Services	159,253
Travel Mileage/Meeting Expense	2,469
Communications	11,627
Utilities	47,922
Other	<u>1,607</u>
Total Purchased Services	<u><u>\$ 349,351</u></u>

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

NOTE 13 - OPERATING LEASES

The Academy entered into an amended lease agreement with T&E Properties, LTD., for the period July 1, 2011 through June 30, 2014 with monthly installment payments of \$11,000 for fiscal year 2012, \$11,500 for fiscal year 2013 and \$12,000 for fiscal year 2014. The cost of the lease during this initial period will be monthly installment payments of \$11,000. Lease payments to the lessor totaled \$144,000, which included a \$12,000 prepayment of rent. The Academy has the option to renew the lease for 3 years, a total of two times. This lease was renewed in fiscal year 2015 for an additional three year period. The lease also provides the Academy the option to purchase the property at any time during the time of the lease.

NOTE 14 - CONTINGENCIES

A. Litigation

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

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The Academy is due \$90,964 for the fiscal year ended June 30, 2015, as a result of the enrollment review. This amount is recorded as "Intergovernmental Receivable" on the statement of net position.

NOTE 15 – SIGNIFICANT SUBSEQUENT EVENT

The Academy terminated the fiscal agent agreement with the ESC of Lake Erie West effective July 1, 2015. The Academy entered into a contract for fiscal services with Charter School Specialists, LLC. for a 12 month period beginning July 1, 2015 for a monthly fee of \$2,500.

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**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO
LAST TWO FISCAL YEARS

	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.00938200%	0.00938200%
Academy's proportionate share of the net pension liability	\$ 474,818	\$ 557,917
Academy's covered-employee payroll	\$ 275,382	\$ 257,905
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.42%	216.33%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.00592945%	0.00592945%
Academy's proportionate share of the net pension liability	\$ 1,442,247	\$ 1,717,996
Academy's covered-employee payroll	\$ 652,431	\$ 618,085
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	221.06%	277.95%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 39,409	\$ 38,168	\$ 35,694	\$ 19,432	\$ 31,405
Contributions in relation to the contractually required contribution	<u>(39,409)</u>	<u>(38,168)</u>	<u>(35,694)</u>	<u>(19,432)</u>	<u>(31,405)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 299,006	\$ 275,382	\$ 257,905	\$ 144,476	\$ 249,841
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 21,600	\$ 9,679	\$ 9,461	\$ 12,629	\$ 6,166
<u>(21,600)</u>	<u>(9,679)</u>	<u>(9,461)</u>	<u>(12,629)</u>	<u>(6,166)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 159,527	\$ 98,364	\$ 96,344	\$ 118,249	\$ 58,280
13.54%	9.84%	9.82%	10.68%	10.58%

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 84,411	\$ 84,816	\$ 80,351	\$ 62,578	\$ 66,180
Contributions in relation to the contractually required contribution	<u>(84,411)</u>	<u>(84,816)</u>	<u>(80,351)</u>	<u>(62,578)</u>	<u>(66,180)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 602,936	\$ 652,431	\$ 618,085	\$ 481,369	\$ 509,077
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 71,332	\$ 69,399	\$ 61,155	\$ 59,018	\$ 51,530
<u>(71,332)</u>	<u>(69,399)</u>	<u>(61,155)</u>	<u>(59,018)</u>	<u>(51,530)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 548,708	\$ 533,838	\$ 470,423	\$ 453,985	\$ 396,385
13.00%	13.00%	13.00%	13.00%	13.00%

**GLASS CITY ACADEMY
LUCAS COUNTY, OHIO**

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

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

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

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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



Dave Yost • Auditor of State

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

Glass City Academy
Lucas County
1000 Monroe Street
Toledo, Ohio 43604

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Glass City Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 29, 2016, wherein we noted the Academy adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant

agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

February 29, 2016



Dave Yost • Auditor of State

GLASS CITY 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 22, 2016**