



Dave Yost • Auditor of State

REACH ACADEMY
LUCAS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of REACH 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 REACH Academy, Lucas County, Ohio, as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 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

July 19, 2016

**REACH ACADEMY
LUCAS COUNTY**

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

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

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in its Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A; however, because this is the first year of operation of the Academy, the comparative information is not presented.

Financial Highlights

- Net position was \$131,914 in 2015.
- Total assets were \$266,105 in 2015.
- Deferred outflows of resources were \$117,607 in 2015
- Total liabilities were \$251,798 in 2015.

Using this Annual Report

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

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

The statement of net position and statement of revenues, expenses, and changes in net position answers the question, "How did we do financially during 2015?" These statements include all assets and liabilities, revenues and expenses using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into the account all revenues and expenses during the year, regardless of when cash is received or paid.

**REACH ACADEMY
LUCAS COUNTY**

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

Table I provides a summary of the Academy's net position for fiscal year 2015:

TABLE 1	For the Year Ended
	June 30, 2015
Assets	
Current Assets	\$ 232,163
Capital Assets - Net	33,942
Total assets	266,105
Deferred Outflows of Resources	
Pension	117,607
Liabilities	
Current Liabilities	210,927
Noncurrent liabilities	
Due in More Than One Year	40,871
Total liabilities	251,798
Net Position	
Invested in capital assets—net of related debt	33,942
Unrestricted	97,972
Total net position	\$ 131,914

Total net position of the Academy was \$131,914. Intergovernmental Receivables were \$156,936 primarily due to uncollected federal funds. Contracts Payable was \$37,820 primarily due to management fees and employer retirement costs. Cash was \$48,998.

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

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

**REACH ACADEMY
LUCAS COUNTY**

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

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

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

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

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

Because of the difficulty of obtaining reporting year data to record net pension liability on a timely basis, the Academy will be using a measurement date of June 30 of the year prior to the current reporting year. Because 2015 was its first year of operation, the Academy did not have a share in the net pension liability or any deferred outflows measured at June 30, 2014. It did record deferred outflows at June 30, 2015, representing required contributions to the pension plan during fiscal year 2015 that will be recorded as pension expense during fiscal year 2016.

**REACH ACADEMY
LUCAS COUNTY**

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

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

TABLE 2	For the Year Ended
	June 30, 2015
Operating Revenues	
Foundation Payments	\$ 1,990,230
Other Revenues	7,668
	1,997,898
Operating Expenses	
Purchased Services	2,165,348
Materials and Supplies	69,426
Depreciation	5,853
Other expenses	27,826
	2,268,453
Operating Loss	(270,555)
Nonoperating Revenues and Expenses	
Federal Grants	250,010
State Grants	145,893
Contributions and Donations	9,356
Interest	(2,790)
	402,469
Change in Net Position	131,914
Net Position Beginning of Year	-
Net Position End of Year	\$ 131,914

Net position at the end of the first year of operation was \$131,914 solely due to higher revenues than expenses, aided by the recording of \$117,607 in pension-related deferred outflows in the Academy's first year of operation. Comparative information is not available.

**REACH ACADEMY
LUCAS COUNTY**

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

Capital Assets

At the end of fiscal year 2015, the Academy had \$33,942 invested in capital assets (net of depreciation). Table 3 shows capital assets (net of depreciation) for fiscal year 2015.

TABLE 3	2015
Leasehold improvements	\$ 12,432
Furniture, fixtures and equipment	21,510
Net Capital Assets	\$ 33,942

Current Financial Issues

REACH Academy was formed in 2014 under a contract with the Buckeye Community Hope Foundation. During the 2014-2015 school year there were 300 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2015 amounted to \$1,990,230.

Contacting the Academy's Financial Management

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

**REACH ACADEMY
LUCAS COUNTY**

STATEMENT OF NET POSITION
JUNE 30, 2015

Assets

Current Assets:

Cash and Cash Equivalents	\$	48,998
Intergovernmental Receivables		156,936
Prepaid Items		26,229
<i>Total Current Assets</i>		232,163

Non-Current Assets:

Depreciable Capital Assets, Net		33,942
		33,942

<i>Total Assets</i>		266,105
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Deferred Outflows of Resources

Pension		117,607
		117,607

Liabilities

Current Liabilities:

Accounts Payable		13,526
Accrued Wages Payable		132,892
STRS-SERS Payable		28
Contracts Payable		37,820
Intergovernmental Payable		26,661
<i>Total Current Liabilities</i>		210,927

Non-Current Liabilities:

Due In More Than One Year		40,871
		40,871

<i>Total Liabilities</i>		251,798
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Net Position

Invested in Capital Assets, Net of Related Debt		33,942
Unrestricted		97,972
		97,972

<i>Total Net Position</i>		\$ 131,914
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REACH ACADEMY
LUCAS COUNTY**

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

Operating Revenues	
Foundation Payments	\$ 1,990,230
Other Revenues	<u>7,668</u>
<i>Total Operating Revenues</i>	<u>1,997,898</u>
Operating Expenses	
Purchased Services	2,165,348
Materials and Supplies	69,426
Depreciation	5,853
Other	<u>27,826</u>
<i>Total Operating Expenses</i>	<u>2,268,453</u>
<i>Operating Loss</i>	<u>(270,555)</u>
Non-Operating Revenues and Expenses	
Federal Grants	250,010
State Grants	145,893
Contributions and Donations	9,356
Interest and Fiscal Charges	<u>(2,790)</u>
<i>Total Non-Operating Revenues and Expenses</i>	<u>402,469</u>
<i>Change in Net Position</i>	131,914
<i>Net Position Beginning of Year</i>	<u>-</u>
<i>Net Position End of Year</i>	<u><u>\$ 131,914</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REACH ACADEMY
LUCAS COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 2,052,057
Cash Received from Other Operating Revenues	6,814
Cash Payments to Suppliers for Goods and Services	<u>(2,230,341)</u>

Net Cash Used for Operating Activities (171,470)

Cash Flows from Noncapital Financing Activities:

Other Non-Operating Revenues	
Federal Grants Received	103,617
State Grants Received	141,465
Proceeds from Short Term Loans	135,000
Payment of Short Term Loans	(135,000)
Proceeds from Notes	200,000
Principal Payments	(200,000)
Interest Payments	<u>(2,790)</u>

Net Cash Provided by Noncapital Financing Activities 242,292

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(21,824)</u>
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Net Increase in Cash and Cash Equivalents 48,998

Cash and Cash Equivalents at Beginning of Year -

Cash and Cash Equivalents at End of Year \$ 48,998

(Continued)

**REACH ACADEMY
LUCAS COUNTY**

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

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

Operating Loss	<u>\$ (270,555)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	5,853
Donated noncapitalized equipment	1,442
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(3,453)
Increase in Prepaid Items	(26,229)
Increase in Deferred Outflows	(117,607)
Increase in Accounts Payable	3,470
Increase in Intergovernmental Payable	64,869
Increase in STRS-SERS Payable	28
Increase in Accrued Wages Payable	132,892
Increase in Contracts Payable	<u>37,820</u>
<i>Total Adjustments</i>	<u>99,085</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ (171,470)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REACH ACADEMY
LUCAS COUNTY**

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

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

REACH Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is for students to achieve their fullest potential through effective instruction, high standards and expectations, and learning personal responsibility and accountability for their actions. We believe that our school, families, and community are partners in education and share the collective responsibility of educating today's youth for tomorrow's challenges. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy is sponsored under a contract with the Buckeye Community Hope Foundation (the Sponsor) for an initial one-year term commencing July 1, 2014, and a subsequent four-year term commencing July 1, 2015. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. For 2015, the Academy paid \$62,787 to the Sponsor.

The Academy operates under the direction of a five member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's instructional/support facility staffed by eleven non-certificated personnel and twenty-two certificated teaching personnel who provide services to 300 students.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position, a statement of revenue, expenses, and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

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 statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**REACH ACADEMY
LUCAS COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

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

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

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Capital Assets

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

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

Furniture, Fixtures and Equipment	7 years
EDP Equipment and Software	3 years
Non-EDP Equipment	6 years
Leasehold Improvements	Life of Lease

**REACH ACADEMY
LUCAS COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Operating Revenues and Expenses

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

G. Estimates

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

H. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. The Academy did not have any deferred inflow activity in its first year of operation but anticipates such activity going forward.

I. Pension

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

Because this is the first year of the Academy's operation, and the measurement date of net pension liability is June 30 of the year prior to the Academy's current reporting year, the Academy did not recognize any net pension liability at the end of 2015.

3. ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

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

**REACH ACADEMY
LUCAS COUNTY**

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

3. ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS (continued)

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. The Academy began operations in fiscal year 2015 and therefore did not have a share in net pension liability at the measurement date of June 30, 2014 and did not have a net position to restate.

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

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The Academy began operations in fiscal year 2015 and therefore did not have any contributions during fiscal year 2014 to be deferred.

4. DEPOSITS

At June 30, 2015, the carrying amount of all Academy deposits was \$48,998. As of June 30, 2015, the Academy's bank balance was not exposed to custodial risk as discussed below, and all funds were covered by the Federal Deposit Insurance Corporation (the "FDIC").

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

**REACH ACADEMY
LUCAS COUNTY**

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

5. RECEIVABLES

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

A summary of the principal items of receivables follows:

Intergovernmental Receivables	June 30, 2015
Title I	\$ 73,629
Title IIa	205
Special ED	45,892
Child Nutrition	26,667
Medicaid Ohio Health Plan	854
Due from other academy	2,599
Casino Tax	<u>7,090</u>
Total Intergovernmental Receivable	<u>\$ 156,936</u>

6. CAPITAL ASSETS

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

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$ -	\$ 25,732	\$ -	\$ 25,732
Leasehold Improvements	-	14,063	-	14,063
Total Capital Assets Being Depreciated	-	39,795	-	39,795
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	-	(4,222)	-	(4,222)
Leasehold Improvements	-	(1,631)	-	(1,631)
Total Accumulated Depreciation	-	(5,853)	-	(5,853)
Total Capital Assets Being Depreciated, Net	\$ -	\$ 33,942	\$ -	\$ 33,942

**REACH ACADEMY
LUCAS COUNTY**

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

7. RISK MANAGEMENT

A. Property and Liability

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

Coverage is as follows:

Educator's Legal Liability:	
Part 1, D&O Liability, each claim	\$1,000,000
Part 2, Employment Practices, each claim	1,000,000
Aggregate, All Parts	1,000,000
General Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Personal and ADV Injury	1,000,000
Automobile - Hired and Not Owned CSL	1,000,000
Property:	
Personal Property	3,008,572
BI	100,000
Umbrella	8,000,000

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

8. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

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

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

**REACH ACADEMY
LUCAS COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (continued)

A. Net Pension Liability (continued)

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

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

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

Because 2015 is the first year of the Academy's operation, it did not have a share in the net pension liability at the measurement date of June 30, 2014.

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

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

Age and service requirements for retirement are as follows:

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

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

**REACH ACADEMY
LUCAS COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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 \$27,588 for fiscal year 2015. 99.54 percent has been contributed.

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

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

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

**REACH ACADEMY
LUCAS COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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 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 \$90,019 for fiscal year 2015. 100 percent has been contributed.

**REACH ACADEMY
LUCAS COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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. Because fiscal year 2015 was the Academy's first year of operation, they did not share in the net pension liability at the measurement date. There was also no activity on which to base deferred inflows.

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Academy contributions subsequent to the measurement date	<u>\$27,588</u>	<u>\$90,019</u>	<u>\$117,607</u>

\$117,607 reported as deferred outflows of resources related to pension resulting from the Academy's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016.

E. Actuarial Assumptions - SERS

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

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

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

**REACH ACADEMY
LUCAS COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions - SERS (continued)

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

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

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

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

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

<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	15.00	7.50
 Total	 <u>100.00 %</u>	

**REACH ACADEMY
LUCAS COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

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

F. Actuarial Assumptions - STRS

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

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

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

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

**REACH ACADEMY
LUCAS COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions - STRS (continued)

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

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

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.

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**REACH ACADEMY
LUCAS COUNTY**

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

9. POSTEMPLOYMENT BENEFITS (continued)

A. School Employees Retirement System (continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. The Academy was not assessed a surcharge in its first year of operation.

The Academy's contributions for health care for the fiscal year ended June 30, 2015 was \$1,717. 99.54 percent has been contributed for fiscal year 2015.

B. State Teachers Retirement System of Ohio

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

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

**REACH ACADEMY
LUCAS COUNTY**

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

10. CONTINGENCIES

A. Student Attendance and Grants

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

B. Ohio Department of Education Enrollment Review

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

11. PURCHASED SERVICE EXPENSES

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

Purchased Services	2015
Salaries	\$ 952,035
Fringe Benefits	239,559
Other Professional and Technical Services	65,971
The Leona Group, LLC	287,082
Legal Services	2,000
Buckeye Community Hope Foundation	62,787
Cleaning Services	4,767
Repairs and Maintenance	13,934
Building Rental	138,000
Other Rentals	9,278
Communication	23,978
Advertising	4,274
Utilities	37,359
Contracted Food Service	138,097
Pupil Transportation	186,227
Total Purchased Services	\$2,165,348

**REACH ACADEMY
LUCAS COUNTY**

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

12. OPERATING LEASES

Effective July 1, 2014, the Academy assumed a lease for a facility owned by Epiphany of the Lord Parish that was formerly occupied by another Leona Group-managed academy. The lease expired June 30, 2015. Rent payments for the fiscal period consist of \$138,000. The lease was amended on June 30, 2015 to extend through June 30, 2019.

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

Fiscal Year Ending June 30,	Facility Lease
2016	\$138,000
2017	138,000
2018	142,000
2019	142,000
Total Minimum Lease Payments	\$560,000

13. NOTES PAYABLE

Debt Activity during fiscal year 2015 was as follows:

	Balance at 06/30/2014	Additions	Reductions	Balance at 06/30/2015
RBS Citizens NA	\$ -	\$ 200,000	\$ 200,000	\$ -
The Leona Group, LLC	-	135,000	135,000	-
Total	\$ -	\$ 335,000	\$ 335,000	\$ -

The Academy entered into a loan agreement with RBS Citizens NA Bank for \$200,000 on September 26, 2014. The note was used to pay for general operations of the Academy. The note had a floating interest rate equal to the Prime Rate and had a maturity date of June 30, 2015.

The Academy received short term loans from The Leona Group, LLC for \$135,000 to pay for general operations of the Academy. The short term loans have no interest rate and were paid off before June 30, 2015.

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective April 3, 2014 through June 30, 2019, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12% of the per pupil expenditures. The amount paid to TLG for fiscal period 2015 totaled \$287,082. Terms of the contracts require TLG to provide the following:

- A. implementation and administration of the Educational Program;
- B. management of all personnel functions, including professional development;
- C. operation of the school building and the installation of technology integral to school design;

**REACH ACADEMY
LUCAS COUNTY**

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

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT (continued)

- D. all aspects of the business administration of the Academy;
- E. the provision of food service for the Academy; and
- F. any other function necessary or expedient for the administration of the Academy.

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

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

Related Party Transactions	2015
Salaries	\$ 952,035
Benefits	357,166
Advertising	907
Communications	3,317
Contracted Trades	1,985
Materials and Supplies	4,969
Other Direct Costs	1,130
Other Professional and Technical Services	25,408
 Total Related Party Transactions	 <u>\$ 1,346,917</u>

At June 30, 2015, the Academy had payables to The Leona Group, LLC and Leona Ohio Employment Group in the amount of \$37,820. The following is a schedule of payables to The Leona Group, LLC. and Leona Ohio Employment Group:

Balance Due to The Leona Group/Leona Ohio Employment Group	June 30, 2015
Management Fees	\$ 11,410
Payroll	24,084
Miscellaneous	<u>2,326</u>
Total	<u>\$ 37,820</u>

**REACH ACADEMY
LUCAS COUNTY**

*REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ACADEMY CONTRIBUTIONS
LAST FISCAL YEAR (1)*

	2015
<i>State Teachers Retirement System (STRS)</i>	
Contractually Required Contribution	\$ 90,019
Contributions in Relation to the Contractually Required Contribution	(90,019)
Contribution deficiency (excess)	\$ 0
Academy's covered-employee payroll	\$ 642,993
Contributions as a percentage of covered-employee payroll	14.00%
 <i>School Employees Retirement System (SERS)</i>	
Contractually required contribution	\$ 27,588
Contributions in relation to the contractually required contribution	(27,461)
Contribution deficiency (excess)	\$ 127
Academy's covered-employee payroll	\$ 209,317
Contributions as a percentage of covered-employee payroll	13.18%

(1) Fiscal year 2015 was the Academy's first year of operation

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Dave Yost • Auditor of State

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

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

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of REACH Academy, Lucas County, (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated July 19, 2016.

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

July 19, 2016



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Governing Board:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether REACH Academy, Lucas County, Ohio (the Academy) has adopted its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of these procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy on June 5, 2014.
2. We read the policy, noting it included the following requirements listed in Ohio Rev. Code 3313.666.
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as amended by House Bill 19 of the 128th General Assembly;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (6) A procedure for documenting any prohibited incident that is reported;
 - (7) A procedure for responding to and investigating any reported incident;
 - (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
 - (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
 - (10) A requirement that the district administration semiannually provide the president of the governing board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
3. We noted the Board policy included violence within a dating relationship within its definition of harassment, intimidation or bullying.
 4. We also noted the Board policy included prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State

Columbus, Ohio

July 19, 2016



Dave Yost • Auditor of State

REACH 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
AUGUST 9, 2016