A+ CHILDREN'S ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

A+ CHILDREN'S ACADEMY
FRANKLIN COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

A+ Children's Academy
Franklin County
100 Obetz Road
Columbus, Ohio 43207

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of A+ Children's Academy, Franklin 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 such 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 A+ Children's Academy, Franklin 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.

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Emphasis of Matter

As discussed in Note 16 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 December 7, 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

Dave Yost
Auditor of State
Columbus, Ohio

December 7, 2016

The discussion and analysis of A+ Children's Academy's (the Academy) financial performance provides an overall review of the 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 statement and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- Fiscal year 2015 was the third year of operations for the Academy and we were able to provide services to 124 students, which was an increase of 18 students from the prior year.
- Total net position of the Academy at June 30, 2015 was a deficit of $492,218 resulting primarily from the implementation of GASB 68 requiring recognition of unfunded pension liabilities.
- The Academy received $224,371 from federal grants which is an increase of $98,247 from fiscal year 2014.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the management's discussion and analysis and the notes to the basic financial 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. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity-wide and fund presentation information is the same.

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

The view of the Academy as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The statement of net position and the statement of revenue, expenses and changes in net position answer this question. These statements include all assets, liabilities, and deferred inflows/outflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers 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 net position. This change in net position is important because it tells the reader whether, for Academy as a whole, the financial position has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 1 provides a summary of the Academy's net position at June 30, 2015 as compared to June 30, 2014.

Table 1
Net Position

	2015	2014*
Assets		
Current and Other Assets	$115,108	$30,698
Deferred Outflows of Resources	444,579	53,298
Liabilities		
Current and Other Liabilities	53,632	125,765
Long-Term Liabilities	844,477	536,837
Total Liabilities	898,109	662,602
Deferred Inflows of Resources	153,796	0
Net Position		
Restricted	7,355	0
Unrestricted (Deficit)	(499,573)	(578,606)
Total Net Position	($492,218)	($578,606)

*As restated. See note 16 of the notes to the basic financial statements for more information.

Fiscal year 2013 was the Academy's first year of operations. The Academy has seen the FTE counts increase for fiscal years 2014 and 2015 and participates in a number of federal grant programs. This resulted in higher receivables and cash balances. The majority of the current liabilities in the prior year related to a note payable ($71,755) which was forgiven in fiscal year 2015. The Academy's net position is currently in a deficit position due primarily to the recognition of a net pension liability which will be further discussed below.

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 these financial statements 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 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 the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is included within the noncurrent liabilities 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 ($95,067) to ($578,606).

Table 2 shows the changes in net position for fiscal years 2015 and 2014.

Table 2
Change in Net Position

	2015	2014
Operating Revenues		
Foundation Payments	$890,028	$792,434
Special Education	98,029	0
Other Operating Revenues	24,766	15,812
Total Operating Revenues	1,012,823	808,246
Nonoperating Revenues		
State and Federal Grants	236,491	131,474
Contributions and Donations	79,631	0
Total Nonoperating Revenues	316,122	131,474
Total Revenues	1,328,945	939,720

Table 2
Change in Net Position
(Continued)

	2015	2014
Operating Expenses		
Salaries	$466,965	$419,546
Fringe Benefits	145,767	60,111
Purchased Services	535,451	456,701
Materials and Supplies	70,042	41,885
Other Expenses	24,332	5,060
Interest and Fiscal Charges	0	10,219
Total Operating Expenses	1,242,557	993,522
Change in Net Position	86,388	(53,802)
Net Position, Beginning of Year-Restated	(578,606)	N/A
Net Position, End of Year	($492,218)	($578,606)

The majority of the Academy's revenue comes from the state foundation payments, which account for 74% of total revenues. The Academy also receives significant federal funding, which account for 17% of total revenues. In 2015, the Academy also recognized contributions and donations of $79,631, $79,531 of which was the result of principal and interest forgiveness for a note payable from the Academy's management company. Total contributions and donations account for 6% of total revenue for 2015.

Both revenues and expenses grew significantly due to an increase in enrollment between years and due to increased federal grant programs. The Academy has minimal staff and will work to increase that as the funding levels rise. The salaries and benefits only make up 49% of the total expenses which is significantly below the averages seen at other community schools.

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 functional expenses still include pension expense of $53,298 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 $135,273. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 expenses under GASB 68	$1,242,557
Pension under GASB 68	(135,273)
2015 contractually required contribution	64,364
Adjusted 2015 expenses	1,171,648
Total 2014 expenses under GASB 27	993,522
Increase in expenses not related to pension	$178,126

Capital Assets

At June 30, 2015, the Academy had no capital assets.

Debt

At June 30, 2015, the Academy had no outstanding debt. During the fiscal year, the Academy's management company forgave a note payable totaling $71,755 and related accrued interest. See notes 11 and 12 of the notes to the basic financial statements for additional information on the Academy's debt and other long-term obligations.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the A+ Children's Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: A+ Children's Academy Community School, 100 Obetz Road, Columbus, Ohio 43207, (614) 491-8502 or info@apluschildrensacademy.org.

A+ Children's Academy
Statement of Net Position
June 30, 2015

Assets	
Current Assets	
Cash and Cash Equivalents	$41,614
Accounts Receivable	100
Intergovernmental Receivable	73,394
Total Assets	115,108
Deferred Outflows of Resources	
Pension	444,579
Liabilities	
Current Liabilities	
Accounts Payable	31,957
Accrued Wages and Benefits Payable	4,146
Intergovernmental Payable	17,529
Total Current Liabilities	53,632
Noncurrent Liabilities	
Net Pension Liability	844,477
Total Liabilities	898,109
Deferred Inflows of Resources	
Pension	153,796
Net Position	
Restricted For:	
Other Purposes	7,355
Unrestricted (Deficit)	(499,573)
Total Net Position	($492,218)

See the accompanying notes to the basic financial statements.

A+ Children's Academy

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2015

Operating Revenues	
Foundation Payments	$890,028
Special Education	98,029
Classroom Fees	7,409
Other Operating Revenues	17,357
Total Operating Revenues	1,012,823
Operating Expenses	
Salaries	466,965
Fringe Benefits	145,767
Purchased Services	535,451
Materials and Supplies	70,042
Other Operating Expenses	24,332
Total Operating Expenses	1,242,557
Operating Loss	(229,734)
Nonoperating Revenues	
Federal Grants	224,371
State Grants	12,120
Contributions and Donations	79,631
Total Nonoperating Revenues	316,122
Change in Net Position	86,388
Net Position, Beginning of Year-Restated	(578,606)
Net Position, End of Year	($492,218)

See the accompanying notes to the basic financial statements.

A+ Children's Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio - Foundation	$988,057
Cash Received from Classroom Fees	7,409
Cash Received from Other Operating Revenues	17,357
Cash Payments for Personal Services	(531,381)
Cash Payments for Purchased Services	(545,461)
Cash Payments for Materials and Supplies	(63,830)
Cash Payments for Other Expenses	(24,332)
Net Cash Used for Operating Activities	(152,181)
Cash Flows from Noncapital Financing Activities	
Cash Received from Federal Grants	172,954
Cash Received from State Grants	12,120
Net Cash Provided by Noncapital Financing Activities	185,074
Net Change in Cash and Cash Equivalents	32,893
Cash and Cash Equivalents, Beginning of Year	8,721
Cash and Cash Equivalents, End of Year	$41,614
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	($229,734)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Change in Liabilities and Deferred Inflows/Outflows of Resources:	
Increase in Deferred Outflows of Resources	(391,281)
Decrease in Accounts Payable	(3,798)
Decrease in Accrued Wages and Benefits Payable	(3,665)
Increase in Intergovernmental Payable	14,861
Increase in Net Pension Liability	307,640
Increase in Deferred Inflows of Resources	153,796
Net Cash Used for Operating Activities	($152,181)
Noncash Transactions	
Principal Forgiveness on Note Payable	$71,755
Forgiveness of Accrued Interest Payable on Note Payable	7,776
Total Noncash Transactions	$79,531

See the accompanying notes to the basic financial statements.

Note 1 – Description of the Reporting Entity

A+ Children's Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code, Chapters 3314 and 1702, to address the needs of students in grades kindergarten through six. The Academy qualifies as an exempt organization under section 501(c)(3) of the Internal Revenue Code. The Academy's mission is to cultivate a passion for learning through an engaging standards-based integrated curriculum that addresses students' social, emotional, academic, and cognitive needs. Academy students will be excited about learning, prepared for learning, and supported in their learning. 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 sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Office of School Sponsorship maintained through the Ohio Department of Education for a period of five years commencing July 1, 2012. The contract expires on June 30, 2017.

The Academy operates under the direction of a five member Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admissions standards and qualifications of teachers. The Academy's Superintendent serves as a non-voting member of the Board.

The Board hires the Superintendent, who hires all the other staff, and manages the day-to-day operations of the Academy. The Board controls the Academy's one instructional/support facility staffed by 7 non-certified and 10 certified full time teaching personnel who provide services to 124 students (FTE).

Note 2 – Summary of Significant Accounting Policies

The Academy's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) 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.

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. The Academy uses enterprise accounting to track and report on its financial activities. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities, and deferred inflows/outflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

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 contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

Cash

All monies received by the Academy are accounted for by the Academy's treasurer. All cash received is maintained in accounts in the Academy's name. Monies for the Academy are maintained in checking accounts.

Capital Assets and Depreciation

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 five thousand dollars.

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.

Capital assets 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:

Description	Estimated Lives
Building and Improvements	30
Furniture and Equipment	5

The Academy does not possess any capital assets.

Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, State Special Education Program and the Poverty Based Assistance Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

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.

Amounts awarded under grants and entitlements for the fiscal year ended June 30, 2015 totaled $1,224,548.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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. The Academy reports deferred outflows of resources in the statement of net position for amounts related to pensions, which will be further discussed in note 6.

In addition to liabilities, the statement of net position will sometimes 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 as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources include amounts related to pensions, which will be further discussed in note 6.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes represents amounts restricted for federal grant programs. The Academy first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Estimates

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the Academy. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting these definitions are reported as nonoperating.

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 positon 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 - Deposits

At June 30, 2015, the carrying amount of the Academy’s deposits was $41,614 and the bank balance was $45,132. The entire bank balance was covered by the Federal Depository Insurance Corporation (FDIC).

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository 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 had no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.

Note 4 - Receivables

Receivables at June 30, 2015 primarily consist of intergovernmental receivables arising from grants and entitlements. All receivables are considers collectable in full. A summary of the principal items of receivables follows:

Title VI-B Grant	$3,242
Title I Grant	69,786
Title II-A Grant	366
Total	$73,394

Note 5 – Risk Management

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. For the fiscal year ended 2015, the Academy contracted for the following coverage provided by Philadelphia Insurance Company, which includes a $1,000 deductible:

General Liability:	
Per Occurrence	$1,000,000
Personal Injury	1,000,000
Total Per Year	2,000,000
Rented to You	100,000
Medical Expense (Per Person)	5,000
Business Personal Property	100,000
Educators Professional Liability	1,000,000
Employee Benefits	1,000,000
Errors and Omissions	1,000,000
Vicarious Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

Worker's 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.

Note 6 – 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.

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.

The 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 the accrual basis 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.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to 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 Benefits	Age 60 with 5 years of service credit	Age 62 with 10 years of service credit; or
	Age 55 with 25 years of service credit	Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

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

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

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

The Academy's contractually required contribution to SERS was $21,620 for fiscal year 2015. 94.14 percent has been contributed 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 website at www.strsoh.org.

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. 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 $42,744 for fiscal year 2015. The full amount has been contributed 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	$259,829	$584,648	$844,477
Proportion of the Net Pension Liability	0.00513400%	0.00240364%	
Pension Expense	$40,319	$94,954	$135,273

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	$2,670	$5,629	$8,299
Adjusted for significant change in employee head count	100,141	271,775	371,916
Academy contributions subsequent to the measurement date	21,620	42,744	64,364
Total Deferred Outflows of Resources	$124,431	$320,148	$444,579
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$42,171	$108,162	$150,333
Difference between Academy contributions and proportionate share of contributions	0	3,463	3,463
Total Deferred Inflows of Resources	$42,171	$111,625	$153,796

$64,364 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:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	($15,160)	($41,444)	($56,604)
2017	(15,160)	(41,445)	(56,605)
2018	(15,160)	(41,445)	(56,605)
2019	(15,160)	(41,445)	(56,605)
Total	($60,640)	($165,779)	($226,419)

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:

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 average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$370,699	$259,829	$166,578

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$836,987	\$584,648	\$371,254

<u>Note 7 – Postemployment Benefits</u>

School Employees Retirement System

In addition to a cost-sharing, multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers a post-employment benefit plan.

<u>Health Care Plan</u>

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2015, the health care allocation was 0.82 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute, 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 minimum compensation level was established at $20,450. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ending June 30, 2015, 2014, and 2013 were $1,345, $213, and $154, respectively. 94.14 percent has been contributed for fiscal year 2015. The full amount has been contributed for fiscal years 2014 and 2013.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial report of SERS' Health Care plan is included in its comprehensive annual financial report. The report can be obtained on SERS' website at www.ohsers.org under employers/audit resources.

State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and Defined Contribution Plan.

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

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

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

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 0 percent of covered payroll was allocated to post-employment health care for the year ended June 30, 2015. For the years ended June 30, 2014 and 2013, 1 percent of covered payroll was allocated to post-employment health care. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the Academy, these amounts equaled $0, $2,451, and $1,258, for fiscal years 2015, 2014 and 2013, respectively. The full amount has been contributed for fiscal years 2014 and 2013.

Note 8 – Other Employee Benefits

All staff is entitled to three days of sick leave for the duration of their respective contracts. Other benefits may be available per each contract and changed or eliminated by the Academy at its sole discretion.

Note 9 - Contingencies

Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2015.

State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure community schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of the fiscal year 2015 review resulted in the Academy owing $12,358 to the Ohio Department of Education. This amount has been reported as an intergovernmental payable in the accompanying financial statements.

Note 10 – Purchased Services

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

Professional and Technical Services	$219,638
Property Services	124,639
Communications	32,766
Utilities	33,967
Other	18,986
Food Service	105,455
Total Purchased Services	$535,451

Note 11 – Notes Payable

The changes in the Academy's note obligations during the fiscal year consist of the following:

	Outstanding 6/30/14	Additions	Reductions	Outstanding 6/30/15	Due in One Year
Note Payable	$71,755	$0	$71,755	$0	$0

The Academy entered into a promissory note with Ron and Barb Sams, owners of the Academy's management company, to help with initial cash flow needs of the Academy. The note accrued interest at a five percent rate with the first payment starting in January 2013. The note was amortized over a 120 month period but there was no set payment schedule and the note had a provision it could be called immediately. During fiscal year 2015, Ron and Barb Sams forgave the balance of the note and its related accrued interest. The principal and interest forgiveness was recognized as contributions and donations revenue in the accompanying financial statements.

Note 12 - Long-Term Obligations

The changes in the Academy's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 6/30/14*	Additions	Reductions	Principal Outstanding 6/30/15	Amount Due Within One Year
Net Pension Liability	$536,837	$464,895	$157,255	$844,477	$0

*As restated. See note 16 for additional information.

Obligations related to employee compensation will be paid from the program benefitting from their service.

Note 13 – Management Company – Scioto Academic Management Services, LLC

The Academy entered into a contract with Scioto Academic Management Services, LLC (SAMS) to provide management services to manage the business and overall operation of the Academy. The contract has a provision for the Academy to pay twenty percent of foundation revenues for management services. There were no payments made under that provision during fiscal year 2015. The contract term renewed in fiscal year 2015 to be extended through June 30, 2017.

Note 14 – Sponsorship – Ohio Department of Education

The Academy was under the Ohio Department of Education as its sponsor and oversight services as required by law. The Academy pays the Sponsor three percent of State Aid. Sponsorship fees are calculated as three percent of state funds received by the Academy from the State of Ohio. For the fiscal year ended June 30, 2015, sponsorship fees totaled $29,304.

Note 15 – Management Plan

The Academy was committed to improving its financial position during fiscal year 2015. The Academy utilized all Comprehensive Continuous Improvement Planning (CCIP) dollars as effectively as possible. For fiscal year 2015, the Academy received $150,977 in actual CCIP grant revenue and recorded another $73,394 as a receivable. The Academy also increased the FTE counts from 106.55 in fiscal year 2014 to 124.49 in fiscal year 2015. The Academy had an FTE count of 128.89 in fiscal year 2016. The Academy received a significant increase in Foundation funding in fiscal year 2015 due to the significant increase in enrollment. For fiscal year 2015, the Academy experienced an increase in net position of $86,388 and an increase in cash and cash equivalents of $32,893. The Academy will operate as efficiently as possible and continue to be very prudent with expenses.

Note 16 – Implementation of New Accounting Pronouncements and Restatement of Beginning Balances

For fiscal year 2015, the Academy implemented the 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." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

The implementation of these pronouncements had the following effect on net position as reported at June 30, 2014:

Net Position June 30, 2014	($95,067)
Adjustments:	
Net Pension Liability	(536,837)
Deferred Outflows-Payments Subsequent to Measurement Date	53,298
Restated Net Position June 30, 2014	($578,606)

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 17 – Related Parties

In fiscal year 2015, the Academy was involved in multiple related parties:

The owners of the Management Company, Scioto Academic Management Services, LLC, Ron and Barb Sams, provided a line of credit to the Academy during fiscal year 2014. The loan was forgiven during fiscal year 2015 in the amount of $71,755.

The Academy paid Lawrence “Skip” Sams, son of Ron and Barb Sams, $5,700 for various consulting services, related advertising, and a film shoot.

Ron Sams, owner of the management company has the ability to sign the Academy's checks.

The Academy purchased $19,770 in food service items for April and May 2014 from the Children’s Academy (Samkel, Inc.), another business owned by Ron and Barb Sams. The Academy remitted this payment in February 2015. The Academy also reimbursed Samkel, Inc., for liability insurance premiums, maintenance supplies and signs, advertising and party supplies for the last day of school in the amount of $23,753.

The Academy rents property from Ron and Barb Sams, owners of the management company at a rate of $5,000 per month. The Academy paid $62,000 in rent payments to Mr. Sams and $5,000 in rent payments to Samkel, Inc. The Academy also reimbursed Mr. Sams $7,212 for office furniture, liability insurance and plumbing repairs.

The Academy contracts for financial services from Donohoo, Cupp, and Associates, and provides Treasurer services though DCW (which is a division of Donohoo, Cupp and Associates.) The owner of the accounting firm is the nephew of the management company owner, Ron Sams. The Academy paid $70,607 to these two firms during fiscal year 2015.

The Academy paid Trey Hardgrow, son of the principal and grandson of the management company owner, Ron Sams for various labor in the amount of $667.

The Academy reimbursed Melinda Hardgrow, Principal for party supplies for the last day of school in the amount of $176.

The Academy allowed an unauthorized signer, Beth Brown, daughter of management company owner Ron Sams and sister to principal, Melinda Hardgrow to sign a check for her brother, Lawrence “Skip” Sams in the amount of $1,200.

The Academy paid Richard K. Brown, husband of Beth Brown, who is the daughter of management company owner, Ron Sams and brother-in-law of Superintendent, Melinda Hardgrow for labor and maintenance in the amount of $1,034.

The Academy paid Richard R. Brown, stepson of Beth Brown, who is the daughter of management company owner, Ron Sams and nephew of Superintendent, Melinda Hardgrow for labor and maintenance in the amount of $1,647.

Sherri Stone, Secretary for the governing board of A+ Children's Academy is an employee of Ron and Barb Sams' private school, Children's Academy. Ms. Stone only attended the first meeting of the fiscal year before resigning effective July 2014. No expenditures were paid to Board Members.

Note 18 – Subsequent Event

On January 9, 2016, the management agreement between A+ Children's Academy and Scioto Academic Management Services, LLC was terminated.

A+ Children's Academy

Required Supplementary Information

Schedule of the Academy's Proportionate Share of the Net Pension Liability

Last Two Fiscal Years (1)

	2013	2014
State Teachers Retirement System		
Academy's proportion of the net pension liability	0.00240364%	0.00240364%
Academy's proportionate share of the net pension liability	$356,710	$584,648
Academy's covered-employee payroll	$125,800	$245,608
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	283.553259%	238.041404%
Plan fiduciary net position as a percentage of the total pension liability	69.296426%	74.707076%
School Employees Retirement System		
Academy's proportion of the net pension liability	0.00513400%	0.00513400%
Academy's proportionate share of the net pension liability	$180,127	$259,829
Academy's covered-employee payroll	$91,091	$154,170
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	197.743926%	168.533786%
Plan fiduciary net position as a percentage of the total pension liability	65.520824%	71.697842%

(1) 2013 was the Academy's initial year of operations.
Amounts presented are as of the Academy's measurement date which is the prior fiscal year end.

A+ Children's Academy
Required Supplementary Information
Schedule of Academy Contributions
Last Three Fiscal Years (1)

	2013	2014	2015
State Teachers Retirement System			
Contractually required contribution	$16,354	$31,929	$42,744
Contributions in relation to the contractually required contribution	16,354	31,929	42,744
Contribution deficiency (excess)	$0	$0	$0
Academy's covered-employee payroll	$125,800	$245,608	$305,314
Contributions as a percentage of covered-employee payroll	13.00%	13.00%	14.00%
School Employees Retirement System			
Contractually required contribution	$12,607	$21,368	$21,620
Contributions in relation to the contractually required contribution	12,607	21,368	21,620
Contribution deficiency (excess)	$0	$0	$0
Academy's covered-employee payroll	$91,091	$154,170	$164,036
Contributions as a percentage of covered-employee payroll	13.84%	13.86%	13.18%

(1) 2013 was the Academy's initial year of operations.

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

A+ Children's Academy
Franklin County
100 Obetz Road
Columbus, Ohio 43207

To the Board of Directors:

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 A+ Children's Academy, Franklin 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 December 7, 2016, wherein we noted 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*.

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 Entity'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. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards,* which are described in the accompanying schedule of findings as items 2015-002 and 2015-003.

Academy's Response to Findings

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

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.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

December 7, 2016

A+ CHILDREN'S ACADEMY
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2015

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2015-001

Purchases – Material Weakness

The Academy has a complex financial accounting structure. They contract with DCW Financial Services to maintain their accounting records, perform bank reconciliations and provide a licensed School Treasurer to the Academy. When a purchase is required, a requisition is completed and sent to DCW Financial Services to be compared to the budget. If adequate funds are available, the requisition is approved by the licensed Treasurer and sent back to the Academy for the Superintendent/Principal to approve. The purchase is then completed by the employees of the Academy.

When the product or service is received, an employee verifies the purchase is substantially complete before the invoice is marked 'ok to pay' by the Superintendent/Principal. The check is then prepared by the bookkeeper. Invoices and checks are provided to the Academy's Board Treasurer and/or the Management Company Owner (the Academy's authorized signatories), for review prior to signing. Invoices are maintained by Academy administration at the Academy, filed by check number. Copies of the checks are sent to DCW Financial Services to be input into the Academy's electronic accounting system.

The complex nature of the financial accounting structure where responsible individuals do not work in a close environment to effectively monitor the Academy's receipts and expenditures leaves the Academy at risk of improperly recording expenditures and lost documentation. We identified the following issues:

- 1 instance where the check was signed by an individual who was not an authorized signer.
- 1 instance where the Academy purchased three $100 gift cards which violated proper public purpose.
- 2 instances where the check amount did not match the check register.
- 3 instances where the EFT number did not match the bank statement.
- 4 instances where the expenditure did not agree to supporting documentation.
- 8 instances where the check number did not match the check register.
- 9 instances where the payee of EFTS did not match the check register.
- 23 instances where the dates of EFTs did not match the check register.
- 33 instance where the check number did not match the bank statement.
- 39 instances where the check date did not match the check register.

Failure to follow the requisition process, verify purchases or services have been completed or failure to properly record the Academy's financial activity could cause errors in financial statements, negative net position, or the Academy to pay for items or services the Academy did not actually receive.

We recommend the Academy review their financial accounting structure to help ensure their intended financial controls are in place and operating effectively.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2015-001 (Continued)

Purchases – Material Weakness (Continued)

Officials' Response

The Academy has reviewed its financial accounting structure and changed the authorized signers to the Treasurer and Assistant Treasurer at the end of FY16. The manual checks are retained securely by the Treasurer's office which reduces the possibility of an unauthorized signer.

The Academy has reduced the use of gift cards for purchases to maintain tighter recordkeeping as it relates to documenting the gift card use receipts.

The Academy has instituted a consistent check and memo number system to improve recordkeeping. Heartland Bank does not issue check numbers at the time the checks are processed nor does it assign numbers to those payments which the bank processes electronically. The Academy assigns an internal number to each payment made electronically for accurate recordkeeping.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2015-002

Ethic's Referral - Noncompliance

Ohio Rev. Code §2921.42 (A) states, in part, that no public official shall knowingly authorize, or employ the authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest.

The following issues were noted during the audit:

(1) Beth Brown, daughter of Ron and Barb Sams, Management Company owners, signed a check for her brother, Lawrence Skip Sams in the amount of $1,200 for production of a marketing film; however, Ms. Brown is not an authorized signer on the Academy's account. Ms. Brown is employed at Children's Academy, a private school that is owned by the management company for A+ Children's Academy. Mr. Sams remitted payment to the Academy in the amount of $6,000 on April 15, 2016 to cover all expenses the Academy has paid to him since the Academy opened.
(2) Trey Hardgrow, son of Melinda Hardgrow, Principal and grandson of Management Company owners Ron and Barb Sams was paid $666.50 for performing labor at the Academy.
(3) The arrangement between the Management Company and the Academy is also in violation of Ohio Rev. Code §2921.42 as the management at the Academy has a personal interest in the affairs of the Management Company.

Failure to ensure Academy management is independent of the Management Company and all other vendors could result in the Academy entering into contracts that might not be in the best interest of the Academy or the attending students. Also, failure to safeguard checks from unauthorized signers may result in the Academy being exposed to liabilities of theft or financial errors.

We recommend the Academy take appropriate steps to verify that its management is independent of the Management Company and all other vendors and policies and procedures are in place to detect and appropriately address any conflict of interest. We also recommend for the Academy to implement control procedures to help ensure checks are safeguarded and only authorized signers are signing and issuing checks on behalf of the Academy. We also recommend for the Treasurer to review cancelled checks and the endorsement of cancelled checks during the monthly bank reconciliation procedures to help identify any unauthorized signatures on checks.

These matters will be referred to the Ohio Ethics Commission.

Officials' Response

Effective January 9, 2016, the Board approved the termination of its contract with Scioto Academic Management Services (SAMS).

The Academy has taken steps to detect and address conflicts of interest.

The Treasurer reviews the bank statements, which include copies of all issued checks, during the monthly bank reconciliation process to help identify any unauthorized signatures on checks.

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2015-003

Finding for Recovery Repaid/Resolved Under Audit – Overpayment of Employees – Noncompliance

Governmental entities, without regard to their specific nature, may not expend public monies unless the expenditures are for a proper (i.e. valid) public purpose.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that governmental expenditures should serve a public purpose. In *McClure*, the Ohio Supreme Court offered the following guidelines to determine a public purpose:

1. Whether the expenditure is for or promotes the public health, safety, morals or general welfare;

2. Whether the primary objective is to promote a public purpose, although it may incidentally advance a private interest;

3. If there has been a prospective legislative determination of a proper public purpose.

The Academy and Board approved employee contracts for the 2014-2015 school year. Upon review of payroll expenditures it was noted that two employees were overpaid:

Ms. Jaclyn Nunnery was employed by the Academy to provide services as a Kindergarten Aide during the 2014-2015 school year. Ms. Nunnery had an employment contract with the Academy to receive $8.50 per hour. However, she was paid $8.53 per hour. This was an unapproved salary increase of $45 earned for the academic year. Ms. Nunnery was paid from the Academy's Title I grant.

Ms. Kelly Smith was employed as a Kindergarten Teacher for the Academy's 2014-2015 school year. Ms. Smith was contracted to receive an annual salary of $29,122 but received a total of $29,688 during the year. This was an unapproved salary increase of $566 earned for the academic year. Ms. Smith was paid from the Academy's General fund.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for public monies illegally expended will be hereby issued against Kelly Smith in the amount of $566, and in favor of the Academy's General fund, in the amount of $566.

Also, in accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for public monies illegally expended will be hereby issued against Jaclyn Nunnery in the amount of $45 and in favor of the Academy's Title I fund in the amount of $45.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which an illegal expenditure is discovered, is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code §9.39; *State, ex. Rel. Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2015-003 (Continued)

Finding for Recovery – Overpayment of Employees – Noncompliance (Continued)

The Treasurer signed the warrants resulting in improper payments. A+ Children's Academy Treasurer, Michael Ashmore and his bonding company, Aegis Security Insurance Company ,will be jointly and severally liable in the amount of $566 and in favor of the Academy's General fund from Kelly Smith and will be jointly and severally liable in the amount of $45 in favor of the Academy's Title I fund from Jaclyn Nunnery.

Kelly Smith established a repayment plan with the Academy to pay the overpayment over eight pay periods in fiscal year 2017. Final payment will be made on January 5, 2017. Ms. Smith's finding for recovery has been declared resolved under audit.

Michael Ashmore remitted payment in the amount of $45 to pay the overpayment for Jaclyn Nunnery. Ms. Nunnery's finding for recovery has been declared repaid under audit.

We recommend the Treasurer and Board implement control procedures to help ensure all employees are paid in accordance with their approved contract rates.

Officials' Response

The Academy has further improved its payroll processes to reduce the overpayment of employees.

A+ CHILDREN'S ACADEMY
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2014-001	Purchases	No	Not Corrected; Reissued as Finding 2015-001
2014-002	Accounting System	Yes.	
2014-003	Maintaining Proper Records	No	Partially Corrected; Reissued as a Management Letter Comment
2014-004	Ethics Referrals	No	Not Corrected; Reissued as Finding 2015-002
2014-005	Finding for Recovery Repaid Under Audit	Yes	
2014-006	Federal Receipt Posting	Yes	

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

A+ Children's Academy
Franklin County
100 Obetz Road
Columbus, Ohio 43207

To the Board of Directors:

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 were agreed to by the Board, solely to assist the Board in evaluating whether A+ Children's Academy, Franklin County, Ohio, (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures 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 the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated July 31, 2015, we noted the Board adopted an anti-harassment policy on September 29, 2012. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.

2. The Board amended the policy on April 14, 2015. We read the amended policy, noting it still does not include the following requirements listed in Ohio Rev. Code 3313.666.

   (1) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as of the latest amendment;

   (2) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal.

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 School'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

December 7, 2016

Dave Yost • Auditor of State

A+ CHILDREN'S ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 17, 2017

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