THE NEXT FRONTIER ACADEMY
SUMMIT COUNTY

FINAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

Dave Yost • Auditor of State

THE NEXT FRONTIER ACADEMY
SUMMIT COUNTY

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INDEPENDENT AUDITOR'S REPORT

The Next Frontier Academy
Summit County
1127 Copley Road
Akron, Ohio 44320

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of The Next Frontier Academy, Summit County, Ohio (the "Academy"), as of and for the year ended June 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

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Basis for Adverse Opinion

As described in Note 1 of the financial statements, the Academy prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of The Next Frontier Academy as of and for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 12 to the basic financial statements, the Academy ceased operations on June 17, 2015 based on a vote from their Governing Board and approval by their sponsor. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 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

February 22, 2016

THE NEXT FRONTIER ACADMY
SUMMIT COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) GOVERNMENTAL FUND TYPE FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General
Cash Receipts:	
Receipts from Local Sources:	
Donations	$11,200
Miscellaenous	6,637
Intergovernmental	370,687
Total Cash Receipts	388,524
Cash Disbursements:	
Current:	
Support Services:	0
Fiscal	36,071
Board of Education	12,098
Purchased Services	340,381
Total Cash Disbursements	388,550
Excess of Cash Receipts (Under) Cash Disbursements	(26)
Fund Cash Balances, July 1, 2014	104
Fund Cash Balances, June 30, 2015	$78

The notes to the financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Next Frontier Academy, Summit County, (the Academy) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Next Frontier Academy is a community school as provided for By Ohio Revised Code Chapters 1702 and 3314. The Academy operates under a six-member Board of Directors and is responsible for the provision of public education within the Akron City Academy. The Academy signed a contract with Tri-County Educational Service Center to be its sponsor and contracts with Blue Lake Educational Management Company, LLC, for most of its functions.

The Academy provides services to thirty-eight students. The Academy employed 7 certificated employees and 1 non-certificated employee for 2015**.**

Management believes the financial statement included in this report represents the fund of the Academy over which the Academy has the ability to exercise direct operating control.

B. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Academy chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

C. Fund Accounting

The Academy uses fund accounting to segregate cash and investments that are restricted as to use.

The Academy classifies its funds into the following type:

1. General Fund

This Fund is the general operating fund for the Academy and is used to account for all financial resources except those required by law or contract that are to be accounted for in another fund.

D. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy’s contract with its Sponsor. The contract between the Academy and its Sponsor requires an estimated budget and a total estimated per pupil expenditure amount for each year of the contract and a five year forecast.

E. Federal Tax Exempt Status

The Academy was granted status as an exempt organization under Internal Revenue Code Section 501(c)(3) and is exempt from Federal income taxes. This status was revoked November 15, 2014 for failure to file Internal Revenue Service Form 990 for three consecutive years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Unpaid Sick Leave

Employees are entitled to cash payments for unused sick leave in certain circumstances, such as upon leaving employment. Unpaid sick leave is not reflected as a liability under the basis of accounting described in Note 1B.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Academy maintains a deposit pool the general fund uses. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at June 30 was as follows:

	June 30, 2015
Demand Deposits	$78

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or by securities specifically pledged by the financial institution to the Academy.

3. SPONSORSHIP FEES

The Academy contracted with Tri-County Educational Service Center to be its sponsor. The contract is for a period of three years, commencing July 1, 2013 and expiring on June 30, 2016. Contract renewal is subject to Ohio Revised Code sections 3314.07, 3314.072, and 3314.073. The sponsorship fee charged by Tri-County is 3 percent of State Foundation revenues. Total fees for fiscal year 2015 were $7,623, of which $6,323 was paid. The balance $1,300 will be paid when the final foundation payment is received in July.

4. MANAGEMENT AGREEMENT

On June 22, 2013, the Academy entered into a multi-year Management Agreement (Agreement) with Blue Lake Educational Management Company, LLC which is an educational consulting and fiscal management company. The Agreement's term is for five years, running July 1, 2013 through June 30, 2018. The majority of the Academy's functions have been contracted to Blue Lake. Blue Lake Educational Management Company, LLC is responsible and accountable to the Board for the administration and day-to-day operations.

As part of the terms of this agreement, a fee (Continuing Fee) will be charged to the Academy based on 95 percent of annual gross revenue received by the Academy. Annual gross revenue is defined as State Foundation, charitable contributions, and other miscellaneous revenue received. Federal Title Programs and other Federal, State, and local government grant funding designated to compensate the Academy for the education of its students shall be paid to Blue Lake Educational Management Company, LLC as requested under the annual budget within 48 hours of receipt by the Academy through electronic funds transfers. The Continuing Fee must be expended in accordance with the submitted annual budget and be subject to semi-annual reconciliation based upon actual enrollment and actual revenue received. Blue Lake Educational Management Company, LLC's compensation will be 20 percent of the 95 percent received from the Academy.

4. MANAGEMENT AGREEMENT (continued)

The Academy had purchased service expenses for the fiscal year ended June 30, 2015, to Blue Lake Educational Management Company, LLC of $333,058. Blue Lake Educational Management Company, LLC is responsible for all costs incurred in providing the educational program at the Academy, which include, but are not limited to: compensation of all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, building payments, maintenance, capital improvements required in providing the necessary services, professional services, sponsorship fees, costs and fees relating to any audit conducted pursuant to Chapter 117 of the Revised Code, and insurance premiums.

5. PURCHASED SERVICES

Purchased service expenses were payments for services rendered by various vendors as follows:

Blue Lake	$333,058
Tri-County	6,323
Legal Services	1,000
Total	$340,381

6. INSURANCE

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, Blue Lake Educational Management Company, LLC had the following types of insurance policies that covered the Academy:

Company	Coverage	Amount
Arch Indemnity	General Aggregate	$3,000,000
	Products – Comp/Op Aggregate	3,000,000
	Personal Injury	1,000,000
	Each Occurrence	1,000,000
	General Liability:	
	Damage to Rented Premises	500,000
	Medical Expense	15,000
	Business Personal Property	100,000
	Crime:	
	Employee Theft	1,000,000
	Forgery or Alteration	500,000
	Inside Premises	50,000
	Outside of Premises	50,000
	Computer Fraud	100,000
	Money Orders/Counterfeit Papers	100,000
	Inland Marine – Computer Coverage	25,000
	Auto Liability	1,000,000
	Hired Auto Physical Damage	Lesser of Actual Cash Value or Cost of Repair
	Educators Protection Plus:	
	Professional Aggregate Limit	2,000,000
	Defense Reimbursement	100,000
	Defense Reimbursement Aggregate	300,000
	Employee Benefits:	
	Each Claim	1,000,000

	Annual Aggregate	3,000,000
	Sexual Abuse or Molestation:	
	Each Abusive Conduct Limit	1,000,000
	Annual Aggregate	3,000,000
Scottsdale Indemnity	Professional Liability	
	Employment Practice Liability:	
	Each Claim	1,000,000
	Wage and Hour	250,000
	Immigration Included Third Party	100,000
	Annual Aggregate	1,000,000
	Insured Person and Organization:	
	Each Claim	1,000,000
	Annual Aggregate	1,000,000
	Fiduciary:	
	Each Claim	1,000,000
	Annual Aggregate	1,000,000
Lexington Insurance	Excess Liability:	
	General Liability (Each Event/Aggregate Limit)	10,000,000
	Auto Liability (Each Event/Aggregate Limit)	10,000,000
	Employee Benefits Liability (Each Event/Aggregate Limit)	10,000,000
	Educators Protection Plus (Each Event/Aggregate Limit)	10,000,000
	Sexual Abuse or Molestation (Each Event/Aggregate Limit)	10,000,000
	Employment Practice Liability (Each Event/Aggregate Limit)	10,000,000
	Insured Person and Organization (Each Event/Aggregate Limit)	10,000,000
	Employer's Liability (Each Event/Aggregate Limit)	10,000,000
Underwriters at Lloyd's of London	Cyber Liability:	
	Privacy Liability	500,000
	Breach Notification	500,000
	Media Liability	500,000
	Regulatory Proceedings	500,000
	System Damage and Business Interruption	500,000

Settlement claims have not exceeded this commercial coverage

7. PENSION PLANS

For purposes of measuring the net pension liability, 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.

Defined Benefit Pension Plans

Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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

Ohio Revised Code limits The Next Frontier Academy’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District 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.

7. PENSION PLANS (continued)

A. School Employees Retirement System

Plan Description – The Next Frontier 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 Next Frontier 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 fiscal year ending June 30, 2015, the allocation to the pension and death benefits was 12.44 percent. The remaining 1.56 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare Part B Funds. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2015 and 2014 were $12,024 and $4,796, respectively. The full amount has been contributed for fiscal years 2015 and 2014.

7. PENSION PLANS (continued)

B. State Teachers Retirement System

Plan Description – The Next Frontier 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.

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.

7. PENSION PLANS (continued)

B. State Teachers Retirement System (continued)

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 Next Frontier 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 required contribution to STRS Ohio for the DB Plan, the DC Plan, and the Combined Plan were $28,266 for the fiscal year ended June 30, 2015 and $21,296 for the fiscal year ended June 30, 2014. The full amount has been contributed for fiscal years 2015 and 2014.

Net Pension Liability

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 Next Frontier Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net			
Pension Liability	$41,348	$282,699	$324,047
Proportion of the Net Pension			
Liability	0.0008170%	0.001162%	

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.

7. PENSION PLANS (continued)

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:

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 %	

7. PENSION PLANS (continued)

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.

Sensitivity of The Next Frontier 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%)
School District's proportionate share of the net pension liability	$58,991	$41,348	$26,508

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:

7. PENSION PLANS (continued)

Actuarial Assumptions – STRS (continued)

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 Next Frontier Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents The Next Frontier 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 District'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	$404,715	$282,699	$179,515

8. POSTEMPLOYMENT BENEFITS

School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was $20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, The Next Frontier Academy's surcharge obligation was $0.

The Academy's contributions for health care for the fiscal years ended June 30, 2015 and 2014 were $748 and $329, respectively. The full amount has been contributed for fiscal years 2015 and 2014.

State Teachers Retirement System

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

8. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System (continued)

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 years ended June 30, 2015, and 2014 were $0 and $1,638 respectively. The full amount has been contributed for fiscal years 2015 and 2014.

9. ACCOUNTABILITY AND COMPLIANCE

Legal Compliance

The Academy failed to properly prepare their financial statements in accordance with generally accepted accounting principles as required by ORC Section 117.38 and OAC Section 117-02-03 (B).

10. JOINTLY GOVERNED ORGANIZATION

The North Coast Council (NCC) is a jointly governed organization among twenty-seven School Districts, two educational service centers, and the Academy. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among the member districts. Each of the Academy's support NCC based on a per pupil charge. The Board of Directors consists of the nine superintendents representing participating members. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. A copy of NCC's financial statements may be obtained by contacting the Educational Service Center at 5700 West Canal Road, Valley View, and Ohio 44125.

11. SCHOOL FOUNDATION

Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Community Schools must comply with minimum hours of instruction. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which can extend past the fiscal year end. On December 10, ODE finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy and the Academy owes ODE $47,688.

12. SCHOOL CLOSURE

On September 5, 2014 the sponsor Tri-County Educational Service Center informed the Academy's Board in a letter that Tri-County Educational Service Center's Governing Board had acted on a motion to non-renew the Tri-County ESC/ODE Authorization Agreement to act as sponsor for start-up community schools effective at the end of the 2014-2015 school year which would mean that the Academy would need to secure a new sponsor if it was to continue to operate.

12. SCHOOL CLOSURE (continued)

On June 15, 2015, Blue Lake Educational Management Company, LLC terminated its contract with the Academy. On June 17, 2015, due to the Academy being unable to secure a new authorized sponsor, the Board passed a resolution to close the Academy effective immediately in accordance with closing procedures outlined by the Ohio Department of Education.

According to the Ohio Department of Education, the Academy closed on June 30, 2015 due to financial viability.

13. SUBSEQUENT EVENT

For the period of July 1, 2015 through October 31, 2015, the Academy completed its final receipts and expenditures before its dissolution. Revenues and expenditures are detailed below:

Available Balance as of June 30	$78
Revenues:	
Intergovernmental Revenues	9,812
Expenditures:	
Purchased Services	9,389
Board Compensation	400
Other Miscellaneous	101
Total Expenditures	9,890
Amount Remaining	$0

On October 22, 2015 all paperwork was filed with state, local, and federal agencies certifying dissolution of the Board of Directors of The Next Frontier Academy effective October 31, 2015.

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

The Next Frontier Academy
Summit County
1127 Copley Road
Akron, Ohio 44320

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 The Next Frontier Academy, Summit 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 February 22, 2016, wherein we issued an adverse opinion on the Academy's financial statements because the Academy followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit for governments not required to report using accounting principles generally accepted in the United States of America. The Academy is required by Ohio Administrative Code Section 117-2-03 to follow accounting principles generally accepted in the United States of America.

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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 certain deficiencies in internal control over financial reporting, that we consider material weaknesses and significant deficiencies.

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 a 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. We consider findings 2015-002, 2015-003, 2015-006, and 2015-007 described in the accompanying schedule of findings to be material weaknesses.

Internal Control Over Financial Reporting – (Continued)

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2015-008 and 2015-009 described in the accompanying schedule of findings to be significant deficiencies.

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 2015-001 through 2015-005.

Entity's Response to Findings

The Academy's response to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's response 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

February 22, 2016

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

FINDING NUMBER 2015-001

Noncompliance and Finding for Recovery

Ohio Rev. Code Section 3314.08 provides the formula by which Community Schools are funded. Community Schools receive funding from the state through the per-pupil foundation allocation. Unlike city, local, exempted village and joint vocational school districts, Community Schools have no tax base from which to draw funds for buildings and investment in infrastructure.

A full-time student is one who attends the entire school day and entire school year; that will result with the student having a Full-Time Equivalence (FTE) of 1.00. Students who attend a Community School for less than the entire year will have an FTE equal to the total days/hours attended divided by the number of days/hours in the school year. Community Schools are funded on a per-pupil FTE basis. The School Options Enrollment System (SOES) is the Education Management Information System (EMIS) subsystem that drives funding for community schools. It is a Web application administered by the Ohio Department of Education (ODE) and used by community schools and traditional public schools to enter and review data used to flow funds to community schools. Community school personnel enter data in the SOES system and traditional public school personnel review, verify or challenge that data.

Ohio Rev. Code Section 3313.64(J) states that the treasurer of each school district shall, by the fifteenth day of January and July, furnish the superintendent of public instruction a report listing the names of each child in the permanent or legal custody of a government agency or person other than the child's parent and each child who resides in a home, who attended the district's schools during the preceding six calendar months. For each child, the report shall state the duration of attendance of that child, the school district responsible for tuition on behalf of the child, and any other information that the superintendent requires. Upon receipt of this report, the superintendent shall deduct each district's tuition obligations and pay to the district of attendance that amount plus any amount required to be paid by the state.

In addition, **Ohio Rev. Code Section 3314.08** requires the board of education of each school district to annually report the number of students entitled to attend school in the district that are actually enrolled in community schools. This section also requires the governing authority of each community school to annually report the number of students enrolled in the community school. In addition, among other reporting requirements, the governing authority must report the number of students enrolled in career technical education programs (CTE). For each student, the governing board of the community school must report the city, exempted village, or local school district in which the student is entitled to attend.

Based on these reported numbers, the Ohio Department of Education shall calculate and subtract the appropriate amount of state aid from each school district. The amount subtracted shall be paid to the corresponding community school or to the internet or computer-based community school entitled to receive those funds. When calculating and subtracting the appropriate amount of state aid, the department should take into consideration any enrollment of students in community schools for less than the equivalent of a full school year.

FINDING NUMBER 2015-001
(Continued)

The Academy was approved to receive funding from the state on a monthly basis, which included funding for career technical education programs (CTE). At certain times throughout the fiscal year, ODE receives and reviews data and, if necessary, modifies the amounts to be distributed to community schools. Based on its review of the Academy data, ODE determined the Academy was not entitled to some funding for CTE programs that it had received. In a letter dated December 10, 2015, ODE informed the Academy the Final #2 reconciliation included updated fiscal year 2015 CTE data and resulted in the Academy's foundation allocation being reduced from $311,636 to $259,826, a decrease of $51,810 due to lack of adequate student records. Of this amount, $4,122 was deducted from the Academy’s monthly foundation settlement sheets prior to year-end. This resulted in a balance of $47,688 owed to the Ohio Department of Education by the Academy.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against The Next Frontier Academy in the amount of $47,688 in favor of the Ohio Department of Education.

Officials’ Response:

The first written notification received by either The Next Frontier Academy (TNFA) Governing Authority or its sponsor regarding the CTE funding situation was in a letter dated December 10, 2015.

As the following timeline will demonstrate the TNFA governing board and the sponsor did not have adequate opportunity to intervene and stop the CTE funds from being spent by the Blue Lake Management Company and returning those funds to ODE prior to the closing of the school and the reconciling of the accounts.

In September 2014, TNFA advised the sponsor that their CTE courses had been loaded into EMIS.

TNFA produced Fall 2014 EMIS enrollment and student report cards showing that students were enrolled in the CTE courses. In December 2014, the sponsor received an update from John Taracko on the status of the CTE which was also CC’s to all individuals at the Office of Community Schools and which the sponsor forwarded on the TNFA President.

The Academy did not receive any CTE dollars until March 2015.

On March 4, 2015, just prior to the release of the CTE funds, the sponsor and the school administrator Tarik West and the school treasurer Annette Harmon received another email from Taracko apprising them of the amount and allowable expenditures. The sponsor forwarded this email to the Board.

On March 10, 2015, Taracko’s email was forwarded once again to the Board with a note regarding the restrictions to use of funds none of the Board members had been included on the initial March 4th email. On March 10, 2015, the sponsor sent a copy of the Auditor’s Bulletin regarding the use of CTE funds to the Board for reference.

FINDING NUMBER 2015-001
(Continued)

The Academy received CTE funds in March and April which were immediately transferred to the Blue Management Company. On March 17, 2015, Jack Narious conducted TNFA's FTE Audit. The copy of the report the sponsor received did not indicate any FTE irregularities regarding CTE. However, in an email the sponsor received from the Office of Community Schools on May 28, 2015 reference was made to an email they had received from Jack Narius expressing concern about the CTE Program implementation. As of June 1, 2015, neither the sponsor nor the Board have received direct notification of mention of the CTE funding being problematic from either ODE or the Office of Community Schools.

FINDING NUMBER 2015-002

Noncompliance and Material Weakness

Ohio Rev. Code §3314.024 states a management company providing services to a community school and charging more than twenty percent of the school's annual gross revenues shall provide a detailed accounting, including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the school's regular financial audit. In addition, **Ohio Rev. Code §3314.03(A)(8)** requires community schools to have financial audits by the Auditor of State. The contract between the sponsor and the governing authority shall require financial records of the school to be maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, and the audits shall be conducted in accordance with **§117.10** of the Revised Code. This includes classifying costs by function and object codes. The detailed expenditures should be included in a footnote along with the differentiation between the direct costs and any overhead costs a management company allocates to a community school.

The Academy hired Blue Lake Educational Management (BLEM) to be the management company. According to the agreement between the two, BLEM will receive 95% of all revenues received by the Academy. In addition, all federal program monies shall be paid to the company within 48 hours of receipt by the governing authority. BLEM closed in June of 2015 and an independent public accounting firm was unable to conduct an audit over the disbursements of BLEM. As a result, the report was not provided as required and no assurance could be provided over BLEM expenses.

The Academy and management company should comply with the requirements of Ohio Revised Code Section 3314.024.

Officials' Response: No response received.

FINDING NUMBER 2015-003

Noncompliance and Material Weakness

Ohio Rev. Code §3314.6(b) requires the contract entered into between a sponsor and the governing authority of a community school to state the governing authority will adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student, without a legitimate excuse, fails to participate in 105 consecutive hours of the learning opportunities offered to the student and that the governing authority will adopt a policy regarding the admission of students who reside outside the district in which the school is located.

In addition, **Ohio Rev. Code §3301.0714** states schools must enter data concerning the enrollment and attendance of their students into the Ohio Department of Education (ODE's) Education Management Information System (EMIS), which ODE recently rewrote and consolidated with the School Options Enrollment System (SOES). Community school personnel enter data in the EMIS and traditional public school personnel review, verify, or challenge that data in the SOES subsystem.

Furthermore, **Ohio Rev. Code §3302.41 and §3301.079 (K)(1)** allows site-based schools to have blended learning opportunities subject to approval by their sponsor. Community schools offering blended learning opportunities must carefully document both the physical attendance of students as well as their participation in online learning opportunities as verified by log in records. The community school delivering blended learning must also make a declaration of blended learning opportunities to ODE by July 1st of each school year pursuant to **Ohio Rev. Code §3302.41(A**).

The contract between the Academy and Sponsor did include the elements listed above. The Academy failed to adopt an attendance policy in accordance with the elements listed above. In addition, the Academy's policies over student enrollment do not include the required elements for enrollment, withdrawal, student log-ins and truancy of students. Furthermore, no withdrawal forms were provided for students leaving the Academy during the school year and it could not be determined if the students were withdrawn timely within EMIS. Moreover, individual student absence records could not be retrieved for students and student files did not include proper enrollment information to determine whether FTE was properly reported to ODE. Finally, ODE performed an on-site review of the Academy's students records and determined not all student files included a birth certificate and proof of residency, the exact starting date for students at the Academy could not be determined based on information in the student file and that recorded in EMIS. Three students had been absent for 105 consecutive hours or more, making them truan however, the Academy failed to withdraw the students. The ODE review also identified two students being enrolled in the Academy but also being enrolled at another School, and the EMIS data for each student did not accurately reflect the student's situational data concerning enrollment, attendance and FTE.

School funding is based on enrollment and attendance of students. Reporting incorrect enrollment and attendance information could result in incorrect funding. Lack of appropriate documentation resulted in the inability to determine whether the enrollment and attendance information was properly reported within EMIS.

FINDING NUMBER 2015-003
(Continued)

The Academy should establish student attendance policies as required by the Ohio Revised Code and the Sponsor agreement. The Academy should maintain all supporting documentation for student enrollment including log-in information for the blended learning opportunities, site based attendance and/or withdrawals to ensure they are being properly funded and submit the required information on a timely basis to ODE.

Officials' Response: No response received.

FINDING NUMBER 2015-004

Noncompliance

Ohio Rev. Code § 149.351 establishes guidelines against destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Section 149.38 to 149.42 of the Ohio Revised Code.

The Academy did not provide all documentation regarding the enrollment and withdrawal of students. As a result, the Full Time Equivalency (FTE) could not be recalculated nor could we determine if withdrawals were timely input into the Ohio Department of Education (ODE's) Education Management Information System (EMIS). In addition, an FTE review conducted by ODE in March 2015 identified certain student files which did not include a birth certificate or proof of residency and the exact start date could not be verified. Finally, the Academy could not provide minutes from the November 19, December 17, 2014 and January 28, 2015 meetings. Therefore, meeting agendas were used for these meetings to help establish Board actions. A member of Blue Lake Educational Management removed the Board minute book from the school and failed to respond to a request for this documentation.

Failure to maintain adequate documentation over the Board's meetings and supporting student records could result in a loss of accountability over these activities making it difficult for Academy personnel to identify errors which could go undetected along with potential litigation.

The Academy should develop and maintain a system of control and organization over the minute and student records to help ensure they are sufficiently organized and available for efficient use by Academy management and external parties as appropriate.

Officials' Response: No response received.

FINDING NUMBER 2015-005

Noncompliance

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirement of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03 (B) requires the Community School to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

The Academy prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38, the Academy can be fined and various other administrative remedies may be taken against the Academy. In addition, the Academy's annual report still has not been remitted to the Auditor of State.

The Academy should prepare its annual financial report in accordance with GAAP and implement all applicable GASB statements. Further, the Academy should file its financial statements in a timely manner with the Auditor of State.

Officials' Response: No response received.

FINDING NUMBER 2015-006

Material Weakness

Sound financial reporting is the responsibility of the Treasurer and Governing Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

Due to the closure of the Academy, financial statements were compiled by the Academy's sponsor, Tri-County Educational Service Center. Amounts posted to the financial statements for Foundation Revenues were done so at net instead of gross. This led to an audit adjustment in the amount of $35,867, where Intergovernmental Receipts and Fiscal Disbursements were increased. There was no impact on fund balance.

Failure to consistently properly post all transactions increases the possibility the Academy will not be able to identify, assemble, analyze, classify, record, and report its transactions correctly or to document compliance with finance related legal and contractual requirements.

The Academy should maintain the accounting system to enable them to identify, assemble, analyze, classify, record, and report all transactions and to maintain accountability. All transactions should be properly coded and classified according to the USAS chart of accounts to help ensure that financial activity of the Academy is accurately recorded and reported.

Officials' Response: No response received.

FINDING NUMBER 2015-007

Material Weakness

Sound financial reporting is the responsibility of the management and is essential to help ensure information provided to the users of the financial statements is complete and accurate. The Academy's financial statements and supporting notes did not include outstanding obligations since the Treasurer indicated the Academy did not have outstanding obligations as of June 30, 2015. In many instances, the Board has authorized the management company, Blue Lake Educational Management (BLEM), to secure loans for the Academy's continued operations. Several of the loan agreements approved in the minutes were not supported by an agreement, repayment schedule, or other pertinent information. The Board meetings indicated in excess of $200,000 was borrowed from various sources since the inception of the Academy.

The Academy did not have an accurate schedule of outstanding obligations. In addition, the minutes disclosed an amount of loans used during the prior period and loan activity for cafeteria equipment along with discussion about loan documents needed revised and signed. However, no evidence was provided this was done. Furthermore, the minutes disclosed a person instrumental in the creation of the Academy obtaining a loan through the Academy's bank, as opposed to the Academy or BLEM obtaining the loan from the bank. However, the Academy obtained furniture and agreed to pay the balance over the course of three months. The Academy failed to provide a debt schedule or disclose debt activity in the financial statements and notes to the financial statements. The Academy does not have a process in place to keep track of debt activity.

All debt issues should be discussed and approved by the Academy during open Board meetings and include an agreement, amortization schedule, and other supporting documentation. In addition, the Academy should prepare an outstanding obligation schedule and present all debt balances and activity on the face of the financial statements and include disclosures in the notes to the basic financial statements.

Officials' Response: No response received.

FINDING NUMBER 2015-008

Significant Deficiency

Management is responsible to design controls to ensure financial transactions are accurately and timely recorded. The Academy did not develop internal controls over contributions and donations and miscellaneous revenue receipts which were significant revenue sources.

The Treasurer could not provide documentation supporting the amounts recorded in receipts for contributions and donations and did not indicate whether the contributions and donations monies received were in fact a donation or were loans which need to be repaid, as indicated in Finding 2015-007. In addition, miscellaneous revenue of $5,480 was identified; however, the source of this revenue could not be identified. Furthermore, the Academy does not have an internal control system in place where a pre-numbered receipt is issued and provided to the contributor, a duplicate receipt copy kept by the Academy, or information indicating the fund and account code where the monies were posted and if the monies were restricted for a specific purpose. Finally, the Board actions did not always indicate whether the monies received were a donation or a loan or who the responsibility party was.

FINDING NUMBER 2015-008
(Continued)

Failure to establish internal controls over receipts could result in a mis-posting of revenues and subsequent adjustments to the financial statements. In addition, failure to issue receipts could result in a misappropriation of funds and inaccurate financial statements.

The Board should indicate in its motion whether the monies are a donation or a loan. For loans, the Board should provide their approval of the amount borrowed and repayment terms accepted. The Academy should also maintain a formal loan agreement on file. For donations and all other revenue, a duplicate receipt should be completed, signed and issued and then be recorded in a receipts journal indicating the type of receipt, date of receipt, name of the payee and proper fund and account code classification.

Officials' Response: No response received.

FINDING NUMBER 2015-009

Significant Deficiency

According to Ohio Sunshine Laws, when conducting any meeting the public body must comply with its obligations under the Open Meetings Act of opening these work sessions to the public, properly notifying the public, and maintaining meeting minutes.

The minutes were not available for all meetings held by the Academy since there were dates for meetings in which minutes were not taken or not available for review. Further, the Board meeting minutes did not appear to be a complete record of all Board proceedings regarding operations, such as approval of the Board for key operating decisions. These decisions identified the following concerns:

- The Governing Board did stress the importance of background checks in the minutes, however, it appears they were not conducted and provided by employees as requested prior to the employee being hired by the management company, Blue Lake Educational Management (BLEM);
- Employees do not have a signed contract or salary notification forms;
- Governing Board approved actions on behalf of BLEM on several occasions compromising its independence from the management company. Motions include authorizing BLEM to obtain loans on behalf of the Academy and for BLEM themselves;
- Governing Board entered in to agreements with BLEM and CDK consultants, both of which employ an individual who was instrumental to the opening of the Academy, to provide grant writing services. This same individual would provide feedback to the Board at its meetings that was used to make Board decisions;
- Several Board meetings included only three out of six members, which is less than majority and does not qualify as a formal meeting. The Board experienced high turnover throughout the period which attributes to the lack of attendance;
- Discussions about loans being obtained and used in the prior year, along with discussions about loan activity in the current period for the purchase of food service equipment and furniture. In addition, BLEM obtained a $9,000 loan and the Board was uncertain who the responsibility party was;
- The President of BLEM was approved as an authorized check signer on the Academy's account;
- Governing Board approved loaning funds to the BLEM, on top of 95% of the revenues already received;

FINDING NUMBER 2015-009
(Continued)

- The Academy was behind on State Teachers Retirement System and School Employees Retirement System payments throughout the period. In addition, the minutes indicated the Academy was three pay periods behind on teachers' checks and several payroll checks were returned with not sufficient funds at the bank. Furthermore, several bills were not being paid which included rent, cleaning services, the Chef and utilities; and
- Seven of the meeting minutes were not signed by the Board President.

No formal action was taken by the Board to remedy these concerns. These items could result in the misuse of public funds, possible loss of funding and potential litigation.

Rather than reflect only the operational details of the Academy, the Board minutes also included records of operations for Blue Lake Educational Management (BLEM), including debt incurred, donations received, contracts entered and other proceedings for the operations of the management company.

As the Governing board speaks through it minutes, the Academy should ensure procedures are implemented to ensure the minutes provide a complete and accurate reflection of the actions taken only by the Board.

Officials' Response: No response received.

THE NEXT FRONTIER ACADEMY
SUMMIT 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	The Academy did not provide student files or all Board minutes.	No	Not Corrected. This comment was re-issued as Finding 2015-004.
2014-002	Contract between the Academy and Sponsor did not include all required elements and Academy policies over student attendance did not include the required elements.	No	Not Corrected. This comment was re-issued as Finding 2015-003.
2014-003	The Academy failed to provide an agreed-upon procedures report over management company disbursements.	No	Not Corrected. This comment was re-issued as Finding 2015-002.
2014-004	The Sponsor did not fulfill its responsibilities over the Academy.	Yes	
2014-005	Proper documentation was not provided over contributions and donations receipts.	No	Not Corrected. This comment was re-issued as Finding 2015-008.
2014-006	The Academy failed to provide an accurate debt schedule and failed to show this activity in the financial statements.	No	Not Corrected. This comment was re-issued as Finding 2015-007.
2014-007	Governing Board minutes were not available for all meetings held and identified several concerns.	No	Not Corrected. This comment was re-issued as Finding 2015-009.

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Next Frontier Academy
Summit County
1127 Copley Road
Akron, OH 44320

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 procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether The Next Frontier Academy, (the Academy) has updated 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 this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Academy did not amend its anti-harassment policy to include the following requirements in the Ohio Rev. Code 3313.666:

- Violence within a dating relationship within its definition of harassment, intimidation or bullying;
- A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- 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;
- A Procedure for documenting any prohibited incident that is reported;
- A Procedure for responding to and investigating any reported incident;
- A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

- 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;

- A requirement that the district administration semiannually provide the president of the district 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.

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

Dave Yost
Auditor of State

February 22, 2016

THE NEXT FRONTIER ACADEMY

SUMMIT 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
MAY 10, 2016