EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

TABLE OF CONTENTS

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT AUDITOR'S REPORT

East Bridge Academy of Excellence
Franklin County
2323 Lake Club Drive
Columbus, Ohio 43232

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the East Bridge Academy of Excellence, Franklin County, Ohio (the School), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no 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 respective financial position of the East Bridge Academy of Excellence, Franklin County, Ohio, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the School has suffered recurring losses from operations and has a net deficiency. Note 16 also describes management's evaluation of the events and conditions and their plans to mitigate these matters. 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 July 17, 2018, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

July 17, 2018

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

The discussion and analysis of East Bridge Academy of Excellence (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their ***Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*** issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net position increased $101,180, which represents an increase of 5.5 percent from 2016. The increase was primarily due to an increase in deferred outflows and decrease in net pension liability due to GASB 68.

- Total assets increased $83,758, which represents a 337.9 percent increase from 2016. This increase was primarily due to the increase in leasehold improvements.

- Liabilities decreased $180,767, which represents a 10.5 percent decrease from 2016. This decrease is primarily due to a decrease in net pension liability and decreases in accounts payable.

- Deferred outflows of resources increased $58,631, which represents a 65.0 percent change from 2016. This change represents contractually required amounts due to GASB 68.

- Deferred inflows of resources increased $221,976, which represents a 92.2 percent change from 2016. This change represents GASB 68 accruals.

Using this Financial Report

This report consists of four parts, the management's discussion and analysis, the financial statements, the notes to the financial statements, and the required supplementary information. The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Statement of Net Position

The statement of net position answers the question of how well the School performed financially during 2017. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the School's net position for fiscal years 2017 and 2016.

(Table 1)
Statement of Net Position

	2017	2016
Assets		
Current Assets	$ 7,374	$ 24,791
Capital Assets, Net	101,175	-
Total Assets	108,549	24,791
Deferred Outflow of Resources		
Pension System	148,834	90,203
Liabilities		
Current Liabilities	649,331	611,219
Long Term Liabilities	887,141	1,106,020
Total Liabilities	1,536,472	1,717,239
Deferred Inflow of Resources		
Pension System	462,771	240,795
Net Position		
Investment in Capital Assets	9,675	-
Unrestricted	(1,751,535)	(1,843,040)
Total Net Position	$ (1,741,860)	$ (1,843,040)

Total assets increased $83,758. This increase is primarily due to an increase in leasehold improvements. Deferred outflows of resources increased $58,631 due to GASB 68 accruals. Total liabilities decreased by $180,767. This decrease is primarily due to a decrease in net pension liability. It is also due to the management company forgiving long outstanding invoices in the amount of $97,041. Deferred inflows of resources increased $221,976. The changes in deferred outflows and inflows of resources were impacted by GASB 68 accruals. The School operates under a management agreement with The Educational Empowerment Group, LLC (see notes to the financial statements, note 8).

Statement of Net Position (continued)

During a prior year, the School adopted GASB Statement 68, Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School'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 standards required by GASB 68, the net pension liability equals the School'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 School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

In accordance with GASB 68, the School'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.

Statement of Revenues, Expenses, and Changes in Net Position

Table 2 shows the change in net position for fiscal years 2017 and 2016, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Position

	2017	2016
Operating Revenue		
State Aid	$ 418,892	$ 357,381
Facilities	10,669	6,048
Miscellaneous	32,428	71,689
Casino	1,286	3,288
Non-Operating Revenues		
Grants	238,356	235,531
Miscellaneous	173	-
Forgiveness of Accounts Payable	97,041	
Total Revenues	798,845	673,937
Operating Expenses		
Purchased Services: benefits	(64,976)	160,069
Purchased Services	685,659	541,825
Materials and supplies	17,648	9,585
Income taxes	-	33,933
Depreciation	5,325	-
Other Expenses	51,796	1,097
Non-Operating Expenses		
Interest and fiscal charges	2,213	1,835
Total Expenses	697,665	748,344
Change in Net Position	$ 101,180	$ (74,407)

The reason for the increase in overall revenues was primarily due to the forgiveness out long outstanding invoices by the management company, as well as an increase in enrollment from 2016. The School's most significant expenses, "Purchased Services" are a result of the management agreement in place between the School and EEG, LLC. The agreement between the School and EEG, LLC provides that specific percentages of the revenues received by the School will be paid to EEG, LLC to fund operations (see notes to the financial statements, note 8). 2016 classification of expenses have been changed to be comparable to 2017 based on the structure of the new management agreement.

Capital Assets

At the end of fiscal year 2017, the School had $101,175 in Leasehold Improvements. Table 3 shows the balance for fiscal years 2017 and 2016.

(Table 3)
Capital Assets (Net of Depreciation)

	2017	2016
Leasehold Improvements	$ 101,175	$ -
Totals	$ 101,175	$ -

For more information on capital assets, see note 6 in the notes to the financial statements.

Long Term Debt:

As of June 30, 2017, the School has a loan payable to 2323 Partners in the amount of $91,500 with zero interest. The note was issued to the school on September 15, 2016 requiring 71 monthly payments of $1,500. The note will be paid in full on July 1, 2022. The loan was used to pay for improvements to the school.

Current Financial Issues

East Bridge Academy received revenue for 54 students in 2017. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from state aid. Per pupil revenue from state aid for the School averaged $7,979 in fiscal year 2017. The School receives additional revenues from grant subsidies.

Although there is a possibility that state aid will be cut in future years due to the economic climate, the School feels that the relationship with the management company will insulate them from any significant change.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Fiscal Officer at 3320 West Market Street, Suite 300, Fairlawn, Ohio 44333.

THIS PAGE INTENTIONALLY LEFT BLANK.

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS		
Current Assets		
Cash & cash equivalents	$	3,517
Intergovernmental receivable		3,755
Prepaid insurance		102
Total current assets		7,374
Noncurrent assets		
Leashold improvements		101,175
Total assets		108,549
DEFERRED OUTFLOWS OF RESOURCES		
Pension system		148,834
LIABILITIES		
Current liabilities		
Accounts payable		212,742
Intergovernmental payable		368,589
Note payable - Huntington, due in one year		50,000
Loan payable - Improvements, due in one year		18,000
Total current liabilities		649,331
Long term liabilities		
Net pension liability		813,641
Loan payable - Improvements		73,500
Total long term liabilities		887,141
Total liabilities		1,536,472
DEFERRED INFLOWS OF RESOURCES		
Pension system		462,771
NET POSITION		
Net Investment in Capital Assets		9,675
Unrestricted		(1,751,535)
Total net position	$	(1,741,860)

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

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

OPERATING REVENUES	
State basic	$ 418,892
Facilities	10,669
Miscellaneous	32,428
Casino	1,286
Total operating revenues	463,275
OPERATING EXPENSES	
Purchased services: benefits	(64,976)
Purchased services	685,659
Materials & supplies	17,648
Depreciation	5,325
Other	51,796
Total operating expenses	695,452
Operating loss	(232,177)
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	238,356
Interest and Fiscal Charges	(2,213)
Miscellaneous	173
Forgiveness of Accounts Payable	97,041
Total non-operating revenues (expenses)	333,357
Change in net position	101,180
Net position, July 1, 2016	(1,843,040)
Net position, June 30, 2017	$ (1,741,860)

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

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from other operating sources	$	32,427
Cash received from state aid		447,042
Cash payments for employee salaries		(261,066)
Cash payments for employee benefits		(24,639)
Cash payments to suppliers for goods and services		(416,404)
Net cash used for operating activities		(222,640)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash from other non-operating sources		173
Cash received from grant programs		238,356
Cash payments on loan interest		(2,213)
Net cash received from noncapital financing activities		236,316
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Cash payments on promissory note		(15,000)
Net cash used for capital financing activities		(15,000)
Net decrease in cash and cash equivalents		(1,324)
Cash and cash equivalents at beginning of year		4,841
Cash and cash equivalents at end of year	$	3,517
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	$	(232,177)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Depreciation		5,325
Changes in assets, liabilities, and deferred outflows/inflows of resources:		
Prepaid insurance		(102)
Intergovernmental receivable		16,195
Pension deferred outflows		(58,631)
Accounts payable		77,925
Intergovernmental payable		39,228
Net pension liability		(292,379)
Pension deferred inflows		221,976
Total adjustments		9,537
Net cash used for operating activities	$	(222,640)

Non-Cash Activity
The Academy received forgiveness of $97,041 of outstanding payables from its Management Company.

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

THIS PAGE INTENTIONALLY LEFT BLANK.

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

East Bridge Academy of Excellence (the School) is a federal tax exempt 501(c)(3) and state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with Educational Empowerment Group, LLC (EEG, LLC) for most of its functions (see note 8).

The School signed a contract with The Educational Resource Consultants of Ohio, Inc. (ERCO) (Sponsor) to operate for a period from July 1, 2016 through June 30, 2020. The School operates under a self-appointing, five-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. 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, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by EEG, LLC. The facility is staffed with teaching personnel employed by EEG, LLC, who provide services to 54 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in Net Position, financial position and cash flows.

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources as well as all liabilities and deferred inflows of resources are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in Net Position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2017. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. Cash and Cash Equivalents

All cash received by the School is maintained in a demand deposit account.

E. Intergovernmental Revenues

The School currently participates in the State Foundation Program, facilities aid, 3rd grade reading bonus and casino tax distributions, which are reflected under "Operating revenues" on the Statement of Revenues, Expenses, and Changes in Net Position. Revenues received from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been 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 School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2017 school year totaled $430,847. Grants totaled $238,356, presented separately.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation

The School has recorded a leasehold improvement in the amount of $101,175 with $91,500 still payable to 2323 Partners, LLC at June 30, 2017. The note was issued to the school on September 15, 2016 requiring 71 monthly payments of $1,500. The note will be paid in full on July 1, 2022. The loan was used to pay for improvements to the school.

Depreciation is computed by the straight-line method over six years. For purposes of recording capital assets, the Board has a capitalization threshold of $5,000.

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with EEG, LLC (see note 8).

G. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Net Position

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net Position consists of capital assets, net of accumulated depreciation and unrestricted.

I. Operating Revenues and Expenses

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

J. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statements of the financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applied to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension. These amounts have been recorded as a deferred inflow on the statement of net position. Deferred inflows of resources related to pension are reported on the statement of net position. (See note 11)

3. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2017, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, Tax Abatement Disclosures, GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, GASB Statement No. 80, Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14 and GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other government and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the School.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

4. DEPOSITS

As of June 30, 2017, the carrying amount of all School deposits was $3,517. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, none of the School's bank balance of $3,517 was exposed to custodial risk as discussed below, since all of the bank balance was covered by the Federal Depository Insurance Corporation.

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

5. INTERGOVERNMENTAL RECEIVABLE

The School has recorded "Intergovernmental receivable" in the amount of $3,755 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2017. A summary of intergovernmental receivables is as follows:

Funding Source	Amount
Federal Grants:	
FY17 Grants	$ 1,633
SERS/STRS Overpayment	2,122
Total Intergovernmental Receivable	$ 3,755

6. CAPITAL ASSETS AND DEPRECIATION

The School has recorded a leasehold improvement in the amount of $101,175 with $91,500 still payable to 2323 Partners, LLC at June 30, 2017. The School's capital assets consisted of the following:

Capital Assets Being Depreciated	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Leasehold Improvements	$ -	$ 106,500	$ -	$ 106,500
Total Capital Assets Being Depreciated	-	106,500	-	106,500
Less Accumulated Depreciation				
Leasehold Improvements	-	(5,325)	-	(5,325)
Total Accumulated Depreciation	-	(5,325)	-	(5,325)
Total Capital Assets Being Depreciated, Net	$ -	$ 101,175	$ -	$ 101,175

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with EEG, LLC (see note 8).

7. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with EEG, LLC, EEG, LLC has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (see note 8). There have been zero claims the past four years, nor has there been a reduction in insurance coverage from the prior year.

Director and Officer - Coverage has been purchased by the School with a $2,000,000 aggregate limit and a $5,000, $15,000, or $50,000 deductible, depending on the claim.

8. AGREEMENT WITH EDUCATIONAL EMPOWERMENT GROUP, LLC

Effective July 1, 2016, the School entered into a management agreement (Agreement) with Educational Empowerment Group, LLC (EEG, LLC), which is an educational consulting and management company. The term of the Agreement with EEG, LLC is for 3 years and will renew for additional, successive three (3) year terms unless one party notifies the other party no later than six months prior to the term expiration date of its intention to not renew the Agreement. Substantially all functions of the School have been contracted to EEG, LLC. EEG, LLC is responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School is required to pay EEG, LLC a monthly continuing fee of 15 percent of the School's "Qualified gross revenues", defined in the Agreement as, all revenues and income received by the School except for charitable contributions. The continuing fee is paid to EEG, LLC based on the qualified gross revenues.

The School had purchased services for the year ended June 30, 2017, to EEG, LLC, of $464,084 and a payable of $22,841 to EEG, LLC. EEG, LLC will be responsible for procuring the educational program at the School, which includes but is not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance which are then invoiced to the school or reimbursed to EEG, LLC.

9. SPONSORSHIP FEES

Under Paragraph D(4) of the sponsor contract with ERCO, it states that the School "…shall pay to the Sponsor, the amount of two percent (3%) of all state funds received each year, in consideration for the time, organization, oversight, fees and costs of the Sponsor pursuant to this contract." Such fees are paid to the ERCO monthly. As indicated in Net Position, the School incurred $12,731 in sponsorship fees to ERCO (note 10).

10. PURCHASED SERVICES

For the year ended June 30, 2017, purchased service expenses were as follows:

Purchased Services	Amount
Direct Expenses:	
Personnel services	$ 236,986
Professional services	248,090
Building services	147,900
Food service	39,952
Sponsor services	12,731
Total	$ 685,659

11. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

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

The net pension liability represents the School'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 School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School 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 continuing fees payable on the accrual basis of accounting.

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

Plan Description – School 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:

11. DEFINED BENEFIT PENSION PLANS (continued)

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

	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 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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 30 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 School 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, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The School's contractually required contribution to SERS was $5,665 for fiscal year 2017.

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

Plan Description – School 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.

11. DEFINED BENEFIT PENSION PLANS (continued)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 after termination of employment at age 50 or later.

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 to 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.

11. DEFINED BENEFIT PENSION PLANS (continued)

C. Plan Description – State Teachers Retirement System (STRS) (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. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $38,205 for fiscal year 2017. Of this amount, $5,148 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the School's share of contributions to the pension plan relative to the total employer contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 698,197	$ 115,444	$ 813,641
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00208585%	0.00157730%	
Prior Measurement Date	0.00315339%	0.00410990%	
Change in Proportionate Share	(0.00106754%)	(0.00253260%)	
Pension Expense	$ (23,108)	$ (62,056)	$ (85,164)

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

11. DEFINED BENEFIT PENSION PLANS (continued)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 1,555	$ 28,210	$ 29,765
Net difference between projected and actual earnings on pension plan investments	9,523	57,969	67,492
Changes of assumptions	7,707	-	7,707
School contributions subsequent to the measurement date	5,665	38,205	43,870
Total Deferred Outflows of Resources	$ 24,450	$ 124,384	$ 148,834
Deferred Inflows of Resources			
Difference between School contributions and proportionate share of contributions	$ 179,446	$ 283,325	$ 462,771
Total Deferred Inflows of Resources	$ 179,446	$ 283,325	$ 462,771

$43,870 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	$ (60,559)	$ (69,338)	$ (129,897)
2019	(60,561)	(69,347)	(129,908)
2020	(38,312)	(24,715)	(63,027)
2021	(37,714)	2,739	(34,975)
	$ (197,146)	$ (160,661)	$ (357,807)

E. Actuarial Assumptions – SERS

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

11. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

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, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic 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:

11. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 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 (7.50 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 School'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 School's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School proportionate share of the net pension liability	$152,840	$115,444	$84,141

F. Actuarial Assumptions – STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
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.

11. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

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 no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate 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 %	7.61 %

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the School'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

11. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School proportionate share of the net pension liability	$927,847	$698,197	$504,474

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School's net pension liability is expected to be significant.

12. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Health Care Plan Description - The School 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.

12. POSTEMPLOYMENT BENEFITS (continued)

A. School Employee Retirement System (continued)

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 2017, SERS did not allocate any employer contributions to the Health Care fund. 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 2017, this amount was $23,500. 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 2017, the School's surcharge obligation was $525.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The School's contributions for health care for the fiscal year ended June 30, 2015, was $1,583. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School did not contribute to health care in the last three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security. As of June 30, 2017, three of the School's employees contributed to Social Security.

13. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such any such adjustments will not have a material adverse effect on the financial position of the School.

B. Enrollment FTE

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017.

As of the date of this report, all ODE adjustments through fiscal year 2017 are complete.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2017 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

C. Litigation

The School is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

14. OPERATING LEASE

The school entered into a lease agreement with 2323 Partners, LLC located at 2323 Lake Club Drive on July 1, 2015. The current rental amount is $6,396 per month and will increase to $6,964 in fiscal year 2018, and $7,531 in fiscal year 2019.

Total rent expense included other facility related costs and late fees related to the building being rented. For the fiscal year ended June 30, 2017, total rent expense was $96,916.

15. MANAGEMENT COMPANY EXPENSES

As of June 30, 2017, Educational Empowerment, LLC and its affiliates incurred the following expenses on behalf of the School:

	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
Direct expenses:					
Salaries & wages (100 object codes)	$ 151,322	$ 2,547	$ 107,001	$ 62,642	$ 323,512
Employees' benefits (200 object codes)	20,989	165	17,254	3,715	42,123
Property services (420 object codes)				16,603	16,603
Travel Mileage / Meeting (430 object codes)				17,974	17,974
Utilities (450 object codes)				139	139
Supplies (550 object codes)	12,255				12,255
Indirect expenses:					
Overhead				68,532	68,532
Total expenses	**$ 184,566**	**$ 2,712**	**$ 124,255**	**$ 169,605**	**$ 481,138**

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support, marketing and communications.

16. MANAGEMENT PLAN

For the fiscal year 2017, the school had an operating loss of $232,177 and a negative net position of $1,741,860.

Management continues to take steps towards increasing student enrollment and containing costs, which would provide additional State funding and reduce expenses respectively, enabling the school to return to financial stability.

17. SUBSEQUENT EVENT

As of June 30, 2017, the School's management company, The Educational Empowerment Group (EEG) forgave $200,000 of outstanding invoices of which $97,041 was applied to fiscal year 2017. This amount was the amount of outstanding payables to EEG for the year ended June 30, 2017. The remaining portion was applied in fiscal year 2018.

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Four Fiscal Years

	2017	2016	2015	2014
School Employees Retirement System (SERS)				
School's Proportion of the Net Pension Liability	0.00157730%	0.00410990%	0.00674000%	0.00674000%
School's Proportionate Share of the Net Pension Liability	$ 115,444	$ 234,515	$ 328,048	$ 400,806
School's Covered-Employee Payroll	$ 119,571	$ 391,517	$ 236,017	$ 204,595
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	96.55%	59.90%	138.99%	195.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

Notes to Required Supplemental Information:
School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Four Fiscal Years

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
School's Proportion of the Net Pension Liability	0.00208585%	0.00315339%	0.00338930%	0.00338930%
School's Proportionate Share of the Net Pension Liability	$ 698,197	$ 871,505	$ 783,591	$ 982,014
School's Covered-Employee Payroll	$ 213,986	$ 437,971	$ 448,500	$ 373,662
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	326.28%	198.99%	174.71%	262.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

THIS PAGE INTENTIONALLY LEFT BLANK.

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

Required Supplementary Information
Schedule of Schools Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	2017	2016	2015	2014
School Employees Retirement System (SERS)				
Contractually Required Contribution	$ 5,665	$ 16,740	$ 10,798	$ 32,712
Contributions in Relation to the Contractually Required Contribution	(5,665)	(16,740)	(10,798)	(32,712)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
School Covered-Employee Payroll	$ 40,464	$ 119,571	$ 103,953	$ 236,017
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

Required Supplementary Information
Schedule of the School's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

2013	2012	2011	2010	2009	2008
$ 28,316	$ 44,022	$ 45,178	$ 60,263	$ 26,112	$ 16,496
(28,316)	(44,022)	(45,178)	(60,263)	(26,112)	(16,496)
$ -	$ -	$ -	$ -	$ -	$ -
$ 204,595	$ 327,301	$ 359,411	$ 445,074	$ 265,366	$ 167,984
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

Required Supplementary Information
Schedule of the School's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 38,205	$ 29,958	$ 47,603	$ 58,305
Contributions in Relation to the Contractually Required Contribution	(38,205)	(29,958)	(47,603)	(58,305)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
School Covered-Employee Payroll	$ 272,893	$ 213,986	$ 401,379	$ 448,500
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

Required Supplementary Information
Schedule of the School's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

2013	2012	2011	2010	2009	2008
$ 48,576	$ 63,686	$ 75,403	$ 109,182	$ 94,790	$ 100,765
(48,576)	(63,686)	(75,403)	(109,182)	(94,790)	(100,765)
$ -	$ -	$ -	$ -	$ -	$ -
$ 373,662	$ 489,892	$ 580,023	$ 839,862	$ 729,154	$ 775,115
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

THIS PAGE INTENTIONALLY LEFT BLANK.

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

East Bridge Academy of Excellence
Franklin County
2323 Lake Club Drive
Columbus, Ohio 43232

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 the East Bridge Academy of Excellence, Franklin County, (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated July 17, 2018, wherein we noted the School is experiencing certain financial difficulties.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-002.

School's *Response to Findings*

The School's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not subject the School's responses to the auditing procedures applied in the audit of the financial statements 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 School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Dave Yost
Auditor of State
Columbus, Ohio

July 17, 2018

EAST BRIDGE ACADEMY OF EXCELLENCE
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2017

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

FINDING NUMBER 2017-001

Financial Statement Presentation – Material Weakness

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

We applied the following material adjustments to the financial statements:

- Reclassification from Net Investment in Capital Assets to Unrestricted Net Position by $91,500 to account for the outstanding debt the Academy has on its leasehold improvements.
- Reduce other operating revenues by $111,510, and record accounts payable of $55,509 and intergovernmental payable of $56,001 for liabilities still outstanding from prior fiscal periods that were improperly removed from the financial statements.
- Reclassify $12,550 of other operating revenues as non-operating federal grant revenues.
- Record $35,373 of intergovernmental payables and operating expenses related to unrecorded current year benefit liabilities.
- Reclass forgiveness of outstanding payables in the amount of $97,041 as non-operating revenues instead of miscellaneous revenue and record this non-cash activity on the Statement of Cash Flows.
- Reclassification of interest and fiscal charges from operating expenditures to non-operating expenditures by $2,213.
- Reclassification of debt principal from cash flows from noncapital financing activities to cash flows from capital financing activities in the amount of $15,000 on the Statement of Cash Flows.

In addition to the adjustments listed above, we also identified additional misstatements ranging from $3,198 to $13,712 that we have brought to the School's attention.

We also proposed modifications to the Schools' notes to the financial statement, requesting for additional information to be disclosed regarding the School's outstanding lease, line of credit and management plan.

The existence of the material adjusting entries may indicate controls over the preparation of the financial statement may not be functioning as intended. By exercising caution in recording financial activity, the School can help reduce posting errors and increase the reliability of the financial data throughout the year and at year-end.

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

FINDING NUMBER 2017-001 (Continued)

Financial Statement Presentation – Material Weakness (Continued)

We recommend the School take steps to improve its control procedures to help ensure the accurate presentation of the financial statements. Financial transactions should be posted in accordance with procedures established by generally accepted accounting principles (GAAP). We further recommend the Treasurer to review the unadjusted variances identified above to help ensure similar errors are not reported in subsequent years.

Officials' Response: See Corrective Action Plan.

FINDING NUMBER 2017-002

Student Admittances and Withdrawals – Noncompliance

Ohio Rev. Code § 3314.08(H)(2) provides that a student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system established under section 3301.0714 of the Revised Code.

Ohio Rev. Code § 3314.08(H)(2) continues by stating a student's enrollment shall be considered to cease on the date on which any of the following occur: (a) The community school receives documentation from a parent terminating enrollment of the student; (b) The community school is provided documentation of a student's enrollment in another public or private school; (c) The community school ceases to offer learning opportunities to the student.

Ohio Rev. Code § 3314.03(A)(6)(b) further provides a requirement that the governing authority 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 one hundred five consecutive hours of the learning opportunities offered to the student.

The **Ohio Department of Education (ODE) EMIS Manual, Section 2.1.1 Student Enrollment Overview** provides guidance on required documentation to be obtained by the School and maintained in the student file, including the documentation required for withdrawal for each withdrawal code reported in the SOES system and documentation of excused absences.

Of the approximately 52 students the School had, 25 of them were selected for enrollment and withdrawal testing. Of these students, five of the students had no proof of residency, three had no birth record, one was missing a withdrawal form and two had an FTE start date that was not the date of first documented attendance.

In addition, of the 52 students, we selected 5 with excused absences. The School was only able to provide documentation for 1 of the 5 students with excused absences.

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

FINDING NUMBER 2017-002 (Continued)

Student Admittances and Withdrawals – Noncompliance (Continued)

Violation of these statutes also places the School in violation of its contract with its Management Company, Educational Empowerment, as the contract requires the School to be in compliance with the Ohio laws.

We recommend the School maintain the required supporting documentation related to admission, withdrawals and attendance at the School in accordance with its Charter, sponsor and management company contracts, the Ohio Rev. Code and the ODE EMIS Manual.

Officials' Response: See Corrective Action Plan.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001 2015-001	Financial Statement Presentation (first issued in 2011)	Not corrected	Reissued as Finding 2017-001. Refer to Corrective Action Plan.
2016-002 2015-004	Student Admittances and Withdrawals (first issued in 2014)	Not corrected	Reissued as Finding 2017-002. Refer to Corrective Action Plan.

East Bridge Academy of Excellence
2323 Lake Club Drive * Columbus, Ohio 43232
(614) 501-3822 * www.eastbridgeedu.org

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
June 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	I have reviewed the audit adjustments and find the that they primarily related to:		
	#1 The opening trial balance that I received upon being engaged as treasurer on July 1, 2016 did not match the final June 30, 2016 audited balances. **This will not occur for FY18 as there is no treasurer transition.**	8/10/2018	Jeffrey Foster
	#2 The write off old accounts payable was done because no invoice support was provided for those accounts when I was engaged on 7/1/16. Furthermore, those vendors never provided past due statements. During the audit the auditor's office was able to provide support from prior years testing for those invoices, support that we were previously unable to obtain. **This will not occur for FY 18 as there is no treasurer transition.**	8/10/2018	Jeffrey Foster
	#3 The reclassifications and disclosure modifications occurred as a result of a junior staff assigned and a misunderstanding by that staff of our review and submission process. **Treasury staff have been informed of the financial review and submission process.**	8/10/18	Jeffrey Foster
2017-002	Discipline employee up to possible termination of enrollment coordinator handling student records and withdrawals. Employee has been trained on several occasions throughout the course of the year in policies and procedures.	9-1-18	Wendy Rydarowicz

This page intentionally left blank.

Dave Yost • Auditor of State

EAST BRIDGE ACADEMY OF EXCELLENCE

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
AUGUST 23, 2018

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov