Rea & associates a brighter way

Ohio Connections Academy

Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2017

CPAs and business consultants
www.reacpa.com

Dave Yost • Auditor of State

Board of Trustees
Ohio Connections Academy
3740 Euclid Avenue, Suite 101
Cleveland, Ohio 44115

We have reviewed the *Independent Auditor' s Report* of the Ohio Connections Academy, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Connections Academy is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

April 12, 2018

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OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY

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Rea & associates a brighter way

February 21, 2018

To the Board of Trustees
Ohio Connections Academy
3740 Euclid Avenue, Suite 101
Cleveland, Ohio 44115

Independent Auditor's Report

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the Academy's Proportionate Share of the Net Pension Liability,* and *Schedule of the Academy Contributions* on pages 5–10, 38-39, and 40-41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The *Schedule of Expenditures of Federal Awards,* as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200,* Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *Schedule of Expenditures of Federal Awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Expenditures of Federal Awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2018 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's 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.

Rea & Associates, Inc.

Medina, Ohio

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

The Management's Discussion and Analysis (MD&A) is an element of the 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. Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

Financial Highlights

- For fiscal years 2017 and 2016, total assets and deferred outflows of resources were $7,807,073 and $5,625,476.
- For fiscal years 2017 and 2016, total liabilities and deferred inflows of resources were $23,337,208 and $20,371,229.
- For fiscal years 2017 and 2016, total net position deficit was $(15,530,135) and $(14,745,753).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows are included on the Statement of Net Position. The Statement of Net Position represents the basic statement of position for the Academy. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

REPORTING THE ACADEMY AS A WHOLE

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2017?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position answer this question. These statements include *all assets* and *deferred outflows of resources* and *liabilities* and *deferred inflows of resources* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and change in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

FINANCIAL ANALYSIS

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information derived from the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

Table 1 provides a summary of the Academy's Net Position for fiscal years 2017 and 2016:

Table 1
Statement of Net Position

	2017	2016
Assets		
Current Assets	$ 3,615,871	$ 3,764,158
Non-Current Assets	20,936	30,977
Total Assets	3,636,807	3,795,135
Deferred Outflows of Resources	4,170,266	1,830,341
Liabilities		
Current Liabilities	3,626,126	3,784,841
Long Term Liabilities	19,711,082	15,543,294
Total Liabilities	23,337,208	19,328,135
Deferred Inflows of Resources	-	1,043,094
Net Position		
Investment in Capital Assets	20,936	30,977
Unrestricted	(15,551,071)	(14,776,730)
Total Net Position	**$ (15,530,135)**	**$(14,745,753)**

OTHER INFORMATION

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

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

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

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

In accordance with GASB 68, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2017 statements report pension expense of $1,720,115.

Over time, Net Position can serve as a useful indicator of a government's financial position. At June 30, 2017and 2016, the Academy's Net Position was $(15,530,135), and $(14,745,753), respectively.

Current assets represent cash and cash equivalents, federal grants receivables, prepaids, intergovernmental receivables and other receivables. Current liabilities represent accrued expenses, intergovernmental payable and contracts payable at fiscal year-end. Long term liabilities continue to increase due to increases in the net pension liability.

Table 2 shows the changes in Net Position for fiscal years 2017 and 2016:

Table 2
Changes in Net Position

	2017	2016
Operating Revenues		
Foundation Payments		
Regular	$ 19,896,364	$ 20,199,377
Special Education	2,501,095	3,235,281
Total Operating Revenues	22,397,459	23,434,658
Operating Expenses		
Purchased Services	23,879,456	24,890,345
Pension Expense	1,720,115	740,873
Depreciation	10,041	12,804
Total Operating Expenses	25,609,612	25,644,022
Operating Loss	(3,212,153)	(2,209,364)
Non-Operating Revenues		
Federal Grants	2,103,860	2,054,605
Other Intergovernmental Revenue	321,979	316,195
Interest Earnings	1,932	1,499
Total Non-Operating Revenues	2,427,771	2,372,299
Change in Net Position	**$ (784,382)**	**$ 162,935**
Net Position, Beginning of Year	(14,745,753)	(14,908,688)
Net Position, End of Year	**$ (15,530,135)**	**$ (14,745,753)**

Net Position decreased by $784,382 in 2017. For fiscal year 2017, operating revenues decreased by $1,037,199 or 5 percent. The decrease in operating revenues in fiscal year 2017 was driven by changes made to the State's student data reporting requirements. Although the school's average student enrollment increased by approximately 1%, Foundation payments decreased as a result of these new requirements for reporting student attendance. The Academy operates as a one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds are not included in the discussion and analysis. Results of fiscal years 2017 and 2016 operations indicate ending net position of $(15,530,135) and $(14,745,753), respectively.

BUDGET

Pursuant to Ohio Revised Code Chapter 5705.391, the Academy prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. The Academy will from time to time adopt budget revisions as necessary.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Academy used Federal Implementation Grant funds to purchase furniture and fixtures and computers for its office. This represents the only capital assets owned by the Academy. Capital asset information is summarized in Note 4 to the basic financial statements. The Academy has no long-term debt outstanding. The Academy has other long-term obligations related to pension obligations. See Note 7 to the basic financial statements for more detail on the Academy's long-term obligations.

CONTACTING THE ACADEMY'S MANAGMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, Massa Financial Solutions, LLC, 219 East Maple Street, Suite 202, North Canton, Ohio 44720 or e-mail at dave@massasolutionsllc.com.

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

Assets:		
Current Assets:		
Cash and Cash Equivalents	$	2,863,590
Federal Grants Receivable		399,543
Prepaids		58,027
Intergovernmental Receivable		140,855
Other Receivable		153,856
Total Current Assets		3,615,871
Non-Current Assets		
Capital Assets (Net of Accumulated Depreciation)		20,936
Total Assets		3,636,807
Deferred Outflows of Resources		4,170,266
Liabilities:		
Current Liabilities:		
Contracts Payable		1,990,262
Intergovernmental Payable		866,237
Accrued Expense		769,627
Total Current Liabilities		3,626,126
Long Term Liabilities:		
Net Pension Liability		19,711,082
Total Liabilities		23,337,208
Net Position:		
Investment in Capital Assets		20,936
Unrestricted		(15,551,071)
Total Net Position	$	(15,530,135)

See the Accompanying Notes to the Basic Financial Statements

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

Operating Revenues:	
Foundation Payments - Regular	19,896,364
Foundation Payments - Special Education	2,501,095
Total Operating Revenues	22,397,459
Operating Expenses:	
Purchased Services	23,879,456
Pension Expense	1,720,115
Depreciation	10,041
Total Operating Expenses	25,609,612
Operating Loss	(3,212,153)
Non-Operating Revenues:	
Federal Grants	2,103,860
Other Intergovernmental Revenue	321,979
Interest Earnings	1,932
Total Non-Operating Revenues	2,427,771
Change in Net Position	(784,382)
Net Position, Beginning of Year	(14,745,753)
Net Position, End of Year	$ (15,530,135)

See the Accompanying Notes to the Basic Financial Statements

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash Flows from Operating Activities:		
Cash Received for School Foundation Payments	$	23,263,695
Cash Payments to Suppliers for Goods and Services		(25,766,179)
Net Cash (Used) for Operating Activities		(2,502,484)
Cash Flows from Noncapital Financing Activities:		
Federal Grants		2,400,100
Interest		1,932
Other Intergovernmental Revenue		321,979
Net Cash Provided by Noncapital Financing Activities		2,724,011
Net Increase in Cash and Cash Equivalents		221,527
Cash and Cash Equivalents at Beginning of Year		2,642,063
Cash and Cash Equivalents at End of Year	$	2,863,590

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(3,212,153)
Depreciation		10,041
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Changes in Assets, Liabilities, Deferred Outflows and Inflows of Resources:		
Decrease in Intergovernmental Receivable		80,164
(Increase) in Other Receivables		(57,831)
(Decrease) Increase in Contracts Payable		(963,170)
Increase in Intergovernmental Payable		866,237
Increase in Pension Liability		4,167,788
(Increase) in Deferred Outflows of Resources		(2,339,925)
Decrease in Accrued Expense		(61,782)
Decrease in Prepaid Items		51,241
(Decrease) in Deferred Inflows of Resources		(1,043,094)
Total Adjustments		699,628
Net Cash (Used) by Operating Activities	$	(2,502,484)

See the Accompanying Notes to the Basic Financial Statements

NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Ohio Connections Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The mission of the Academy is to leverage technology on behalf of students who need a more personalized approach to education to maximize their potential and meet the highest performance standards. This mission is accomplished through a uniquely individualized learning program that combines the best in virtual education with very real connections among students, family, teachers, and the community. Every Academy student has a Personalized Learning Plan and an entire team of adults (including a parent or other learning coach and an Ohio-certified teacher) committed to the student's successful fulfillment of that plan. The Academy is a high-quality, high-tech, high-touch virtual "school without walls" that brings out the best in every student through Personalized Performance Learning.

The Academy was approved for operation under a contract with the Toledo Charter School Council (now known as The Ohio Council of Community Schools, the Sponsor) for the period July 1, 2008 through June 30, 2018. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a six-member Board of Directors (the Board). The Board of Directors may not be fewer than five nor more than eleven members. At least three Directors will be as follows:

(a) At least one Director shall be the parent of one or more students enrolled in the Academy,
(b) At least one Director shall be a generally recognized community leader in the area served by the Academy, and
(c) At least one Director shall be an educator or have experience in education.

Additionally, the Academy entered into a five-year contract on August 7, 2003, with Connections Academy Inc. for curriculum, school management services, instruction, technology and other services, which was restated and assigned to Connections Academy of Ohio, LLC ("CA") on July 1, 2016, with an expiration date of June 30, 2018. (See Note 10).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation

Enterprise Accounting

The Academy's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

The Academy uses enterprise accounting to track and report on its financial activities. The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus and Basis of Accounting

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391, the Academy prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. The Academy will from time to time adopt budget revisions as necessary.

D. Cash and Cash Equivalents

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. Investments with an initial maturity of more than 3 months are reported as investments. During the fiscal year ended June 30, 2017, investments were limited to a repurchase agreement.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Foundation and Special Education payments are recognized as operating revenues in the accompanying financial statements. Federal grants awarded and received in fiscal year 2017 totaled $2,103,860. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Capital Assets

Capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. The Academy maintains a capitalization threshold of $1,000 dollars. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Furniture and Fixtures	7 years
Equipment	5 years
Computers	3 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Net Position

Net Position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy did not have any restricted net position in fiscal year 2017. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

I. Estimates

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

J. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued expenses in the accompanying financial statements. These liabilities consisted of contracts payable, intergovernmental payable and accrued expenses, totaling $3,626,126 at June 30, 2017. For 2017, intergovernmental payables include monies due back to the State as a result of State funding adjustment. See Note 11 for additional details.

K. Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

L. Deferred Inflows and Deferred Outflows of Resources

A deferred inflow of resources is an acquisition of net position by the Academy that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the Academy that is applicable to a future reporting period. Other revenues received in advance of the fiscal year for which they were intended to finance, are recorded as deferred inflows. Deferred inflows/outflows of resources related to pension are reported on the statement of net position. (See Note 14)

M. Pensions

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

N. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2017, the Academy 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 governments 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 Academy.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Statement 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 Academy's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

NOTE 3 – DEPOSITS

Deposits with Financial Institutions

The Academy's financial institution deposits for the year ended June 30, 2017 are as follows:

	2017
Carrying Amount of Deposits	$ 50,000
Repurchase Agreement	2,813,590
Total	$ 2,863,590

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosure*, $2,657440 was exposed to custodial credit risk as discussed below for the fiscal year ended June 30, 2017, while $250,000 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. The School has no deposit policy for custodial credit risk beyond the requirements of state statute. According to state law, public depositories must give security for all public funds on deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent 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

NOTE 3 – DEPOSITS (CONTINUED)

pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. State law does not require security for public deposits and investments to be maintained in the School's name. During 2017, the Academy and public depositories complied with the provisions of these statutes.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017
Capital assets being depreciated:				
Furniture, fixtures, and equipment	$ 132,819	$ -	$ -	$ 132,819
Less accumulated depreciation:				
Furniture, fixtures, and equipment	(101,842)	(10,041)	-	(111,883)
Capital assets, net of accumulated depreciation	$ 30,977	$(10,041)	$ -	$ 20,936

NOTE 5 - OPERATING LEASES

The Academy rents multiple office facilities through lease agreements executed between their landlords and CA. The terms of these leases are due to expire over periods ranging from August 31, 2017 through August 31, 2022.

Future minimum lease payments for the operating leases are as follows:

Years Ending June 30,	Mason	Worthington	Cleveland	Total
2018	$ 49,521	$ 41,237	$ 9,450	$ 100,208
2019	55,552	3,475	-	59,027
2020	56,941	-	-	56,941
2021	58,365	-	-	58,365
2022	59,824	-	-	59,824
2023	10,011	-	-	10,011
Total	$ 290,214	$ 44,712	$ 9,450	$ 344,376

NOTE 6 - RECEIVABLES

Receivables consisted of federal grants, intergovernmental receivables, and other receivables as of June 30, 2017.

Title I Improving Basic Program	$ 177,288
Title II-A Improving Teacher Quality	73,335
Title VI-B Special Education	148,920
Intergovernmental Receivable	140,855
Other Receivable	153,856
Total	$ 694,254

NOTE 7 – LONG TERM OBLIGATIONS

The changes in the Academy's long-term obligations during fiscal year 2017 were as follows:

	Principal Outstanding 06/30/16	Additions	Deductions	Principal Outstanding 06/30/17
Net Pension Liability:				
STRS	$ 14,562,867	$ 3,895,372	$ -	$ 18,458,239
SERS	980,427	272,416	-	1,252,843
Total Net Pension Liability	15,543,294	4,167,788	-	19,711,082
Total Long-Term Obligations	$ 15,543,294	$ 4,167,788	$ -	$ 19,711,082

NOTE 8 – RISK MANAGEMENT

Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. There was no significant reduction in coverage from the prior year, in addition, there were no settlements in excess of insurance covereage over the past three ficsal years. For fiscal year 2017, the Academy contracted with CA to provide insurance in the following amounts through being included as an additional insured on their policy with Hanover Insurance Company for the following coverage:

Commercial general liability:
$1,000,000 general liability each occurrence
$2,000,000 general liability aggregate
$1,000,000 automobile liability
$5,000,000 umbrella liability each occurrence
$5,000,000 umbrella liability aggregate

NOTE 9 – SPONSOR AGREEMENT

The sponsorship agreement with Ohio Council of Community Schools requires that the Academy shall have a designated fiscal officer who shall meet all the requirements as set forth by law including:

A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;

B. Comply with the policies and procedures regarding internal financial control of the Academy;

C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

The Academy shall pay to the Sponsor 2.5 percent of all base per pupil cost payments received from the state in consideration for the time, organization, oversight, fees and costs of the Sponsor in overseeing the Academy. The total sponsorship fees paid totaled $561,117 for the fiscal year ended June 30, 2017.

NOTE 10 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES

The Academy entered into a five-year contract on August 7, 2003 with Connections Academy, Inc. This agreement was restated and assigned to Connections Academy of Ohio, LLC (“CA”) on July 1, 2016. In the agreement, which expired on June 30, 2017, and renewed through June 30, 2023, CA agrees to provide curriculum, instruction, technology and other school management services. Under the contract, the following terms were agreed upon:

CA will provide direct materials/services or procurement and payment services for the following:

1. Instructional materials as approved by the Board and the Sponsor.
2. Various educational protocols and assessments.
3. Administrative personnel, including health and other benefits, as approved by the Board and the Sponsor where required.
4. Teaching staff, including health and other benefits, as approved by the Board.
5. Educational support services for participating families.
6. Training and other professional development as approved by the Board.
7. Hardware and software as approved by the Board.
8. Technical support for any hardware and software provided under the contract.
9. Maintenance of student records.
10. Services to special needs students as required by law.
11. Administrative services including expenditures for a facility and capital, both of which require Board approval.
12. Financial, treasury and other reporting as required by law.
13. Student recruiting and community education.
14. General school management.

For the services listed above, the Academy is required to reimburse certain actual expenses, pay a fee based on enrollment statistics and pay a school management fee to CA. The school management fee is not to exceed 15 percent of all funds received by the Academy. The total expense on an accrual basis under this contract for fiscal year 2017 totaled $23,424,628. Of this amount, $1,990,262 represents a contract payable at June 30, 2017. Additionally, the Academy was issued service credits from CA totaling $3,401,000 at June 30, 2017.

NOTE 10 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES (CONTINUED)

For the year ended June 30, 2017, CA incurred the following expenses on behalf of the Academy:

		Regular Instruction	Special Instruction	Other Instruction	Support Services	Non-Instructional	Total
	Direct expenses:						
100	Salaries & wages	$ 4,120,869	$ 1,790,130	$ -	$ 1,060,844	$ -	$ 6,971,843
200	Employees' benefits	864,438	361,229	-	181,176	-	1,406,843
410	Professional & technical services	276,879	863,687	-	25,122	13,123	1,178,811
420	Property services	-	-	-	234,056	-	234,056
430	Travel	158,857	54,881	-	-	-	213,738
440	Communications	-	-	-	119,877	-	119,877
450	Utilities	-	-	-	6,298	-	6,298
460	Contracted craft or trade services	-	-	-	14,242	-	14,242
490	Other purchased services	3,559	37,255	23,737	104,281	-	168,832
510	Other supplies	44,112	25,182	-	28,779	-	98,073
520	Books, periodicals & films	364	126	-	-	-	490
DIR	Other direct costs	1,763,098	609,099	-	-	-	2,372,197
	Indirect expenses:						
OH	Overhead	3,174,029	1,490,292	-	817,097	2,189,241	7,670,659
	Total expenses	$ 10,406,205	$ 5,231,881	$ 23,737	$ 2,591,772	$ 2,202,364	$ 20,455,959

The Management Company incurs a variety of costs including general and administrative costs, marketing costs, software development costs, curriculum development costs, enrollment and placement costs, fulfillment and asset tracking costs, legal costs, and other costs associated with providing services to more than one school. These costs are not charged directly to the schools but are allocated internally by the Management Company pro rata based on the number of total students that have enrolled in each school.

NOTE 11 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, the Academy has complied with all grant requirements.

B. Litigation

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

NOTE 11 – CONTINGENCIES (CONINTUED)

C. School Foundation

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 Academy for fiscal year 2017.

In September 2017, the ODE released the first adjustment of $866,237 for overpayment to the Academy in 2017. As a result the Academy is repaying this balance to the ODE over the next 22 months, through June 2019. As of the date of this report, all ODE adjustments through fiscal year 2017 have been completed.

In addition, the Academy'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.

NOTE 12 – TAX EXEMPT STATUS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's nonprofit status. The Academy was approved on October 26, 2006 for tax exempt status under 501(c)3 of the Internal Revenue Code. The approval had a retroactive date of July 3, 2003.

NOTE 13 – MANAGEMENT COMPANY

The Academy has contracted with CA to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately is responsible for remitting retirement contributions to the State Teachers Retirement System and the School Employees Retirement System.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 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 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.

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Funding Policy –Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 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 Academy's contractually required contribution to SERS was $73,841 for fiscal year ended June 30, 2017.

Plan Description - State Teachers Retirement System (STRS)

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

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

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 are 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 that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was $861,505 for fiscal year 2017.

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 18,458,239	$ 1,252,843	$ 19,711,082
Proportion of the Net Pension Liability:			
Current Measurement Date	0.05514364%	0.01711750%	
Prior Measurement Date	0.05269323%	0.01718210%	
Change in Proportionate Share	0.00245041%	(0.00006460%)	
Pension Expense	$ 1,587,573	$ 132,542	$ 1,720,115

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.

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 745,803	$ 16,897	$ 762,700
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,532,530	103,341	1,635,871
Changes of Assumptions	0	83,634	83,634
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	746,870	5,845	752,715
Academy Contributions Subsequent to the Measurement Date	861,505	73,841	935,346
Total Deferred Outflows of Resources	$ 3,886,708	$ 283,558	$ 4,170,266

$935,346 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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	$ 562,812	$ 53,361	$ 616,173
2019	569,814	53,286	623,100
2020	1,157,887	45,699	1,203,586
2021	734,690	57,371	792,061
Total	$ 3,025,203	$ 209,717	$ 3,234,920

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 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.

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 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 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 asset class are summarized in the following table:

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
	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 earning 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 investment was applied to all periods of projected benefits to determine the total net pension liability.

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 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%)
Academy's proportionate share of the net pension liability	$ 1,658,686	$ 1,252,843	$ 913,136

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016 and 2015, 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, 2016 and 2015, valuations are based on the results of an actuarial experience study, effective July 1, 2012.

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 %	

*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.

NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate for fiscal year 2016:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$ 24,529,499	$ 18,458,239	$ 13,336,772

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.

NOTE 15 – POSTEMPLOYMENT BENEFITS

School Employees Retirement System (SERS)

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

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.

NOTE 15 – POSTEMPLOYMENT BENEFITS (CONTINUED)

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 2017 and 2015, 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 2017 and 2016 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 Academy's surcharge obligation was $273.

For fiscal years 2017 and 2016, SERS did not allocate employer contributions to the Healthcare Fund. The Academy's contributions for health care for the fiscal year ended June 30, 2015 was $724. The full amount has been contributed for fiscal year 2015.

School Teachers Retirement Systems (STRS)

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

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

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS (1)

	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.01711750%	0.01718210%	0.01714000%	0.01714000%
Academy's Proportionate Share of the Net Pension Liability	$ 1,252,843	$ 980,427	$ 867,446	$ 1,019,261
Academy's Covered Payroll	$ 603,093	$ 517,269	$ 498,066	$ 474,465
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	207.74%	189.54%	174.16%	214.82%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Notes:

Academy 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%

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS (1)

	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.05514364%	0.05269323%	0.05161239%	0.05161239%
Academy's Proportionate Share of the Net Pension Liability	$ 18,458,239	$ 14,562,867	$ 12,553,919	$ 14,954,147
Academy's Covered Payroll	$ 5,850,600	$ 5,496,921	$ 5,679,000	$ 4,962,569
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	315.49%	264.93%	221.06%	301.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 73,841	$ 84,432	$ 68,176	$ 69,032	$ 65,666	$ 57,307	$ 47,203	$ 48,886	$ 15,264	$ 13,341
Contributions in Relation to the Contractually Required Contribution	(73,841)	(84,432)	(68,176)	(69,032)	(65,666)	(57,307)	(47,203)	(48,886)	(15,264)	(13,341)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School's Covered-Employee Payroll	$ 527,436	$ 603,086	$ 517,269	$ 498,066	$ 474,465	$ 426,074	$ 375,521	$ 361,049	$ 155,122	$ 135,855
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 861,505	$ 819,084	$ 769,569	$ 738,270	$ 645,134	$ 596,917	$ 505,634	$ 424,111	$ 317,596	$ 229,770
Contributions in Relation to the Contractually Required Contribution	(861,505)	(819,084)	(769,569)	(738,270)	(645,134)	(596,917)	(505,634)	(424,111)	(317,596)	(229,770)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School's Covered-Employee Payroll	$ 6,153,607	$ 5,850,600	$ 5,496,921	$ 5,679,000	$ 4,962,569	$ 4,591,669	$ 3,889,492	$ 3,262,392	$ 2,443,046	$ 1,767,462
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017 and 2016.

Changes in assumptions: Amounts reported in 2017 reflect an adjustment of 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. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for the fiscal year 2017 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

February 21, 2018

To the Board of Trustees
Ohio Connections Academy
3740 Euclid Avenue, Suite 101
Cleveland, Ohio 44115

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio Connections Academy, Cuyahoga County, Ohio (the "Academy") as of and for the year ended June 30, 2017, 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 21, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

February 21, 2018

To the Board of Trustees
Ohio Connections Academy
3740 Euclid Avenue, Suite 101
Cleveland, OH 44115

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

Report on Compliance for Each Major Federal Program

We have audited the Ohio Connections Academy's, Cuyahoga County, Ohio (the "Academy") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2017. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

Management is responsible for compliance with federal statues, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Total Provided to Subrecipients	Disbursements
U. S. Department of Education				
Passed Through Ohio Department of Education:				
Title I	84.010	2016	$ 0	$ 53,084
Title I	84.010	2017	0	1,079,871
Total Title I			0	1,132,955
Special Education Cluster:				
Early Childhood Special Education - Grants to States	84.173	2017	0	2,018
IDEA Part B	84.027	2016	0	47,848
IDEA Part B	84.027	2017	0	668,701
Total IDEA Part B			0	716,549
Total Special Education Cluster			0	718,567
Improving Teacher Quality	84.367	2016	0	23,574
Improving Teacher Quality	84.367	2017	0	282,242
Total Improving Teacher Quality			0	305,816
Total U.S. Department of Education			0	2,157,338
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ 0	$ 2,157,338

See the Notes to the Schedule of Expenditures of Federal Awards.

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY

Notes to the Schedule of Expenditures of Federal Awards
2 CFR §200.510(b)(6)
For the Fiscal Year Ended June 30, 2017

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Ohio Connections Academy, Cuyahoga County, Ohio (the Academy) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Academy, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Academy.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Academy has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

NOTE C – TRANSFERS

The Academy generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, an Academy can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the Academy a total of 27 months to spend the assistance. During fiscal year 2017, the ODE authorized the following transfers:

CFDA Number/ Grant Title	Grant Year	Transfer Out	Transfer In
84.027 Special Education, Part B-IDEA	2016	$ 48,580	
84.027 Special Education, Part B-IDEA	2017		$ 48,580
84.367 Improving Teacher Quality	2016	23,852	
84.367 Improving Teacher Quality	2017		23,852
		$ 72,432	$ 72,432

OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR §200.515
JUNE 30, 2017

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d) (1) (iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d) (1) (vii)	Major Programs (list): Title I	 CFDA # 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > $750,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None were noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted.

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Dave Yost • Auditor of State

OHIO CONNECTIONS ACADEMY

CUYAHOGA 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, 2018

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