# *AKRON DIGITAL ACADEMY*
# *SUMMIT COUNTY, OHIO*

## *AUDIT REPORT*

***FOR THE YEAR ENDED JUNE 30, 2017***

Charles E. Harris
& Associates
certified public accountants & government consultants

# Dave Yost • Auditor of State

Board of Directors
Akron Digital Academy
1879 Deerfield Road
Lebanon, Ohio 45036

We have reviewed the *Independent Auditor's Report* of Akron Digital Academy, Summit County, prepared by Charles E. Harris & 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. Akron Digital Academy is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

April 4, 2018

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**AKRON DIGITAL ACADEMY**
***SUMMIT COUNTY***
**AUDIT REPORT**
For the year ended June 30, 2017

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Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
**_Charles E. Harris & Associates, Inc._**
Office phone - (216) 575-1630
*Certified Public Accountants*
Fax - (216) 436-2411

## INDEPENDENT AUDITOR'S REPORT

Akron Digital Academy
Summit County
335 S. Main Street
Akron, Ohio 44308

To the Board of Directors:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Akron Digital Academy, Summit 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 Academy'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 Academy'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 Akron Digital Academy, Summit County, Ohio, as of June 30, 2017, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As discussed in Note 11 to the financial statements, the Ohio Department of Education has performed an FTE review of the Academy's State Foundation payments for fiscal years 2016 and 2017. The Academy's State Foundation payment based on enrollment for the year ended June 30, 2017 will be reduced in the next 22 months by $694,548. The financial statements include this adjustment. The results of the 2016 review noted an overpayment of $2.3 million. The Academy has appealed this review and the results are not finalized. This amount was not adjusted in the financial statements. These two items raise substantial doubt about the Academy's ability to continue as a going concern. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension liabilities and pension contributions listed in the table of contents, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 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.

Charles E. Harris & Associates

***Charles E. Harris & Associates, Inc.***
November 27, 2017

The discussion and analysis of the Akron Digital Academy's (the "Academy") financial performance provides an overall review 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

## Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2017 are as follows:

- Total net position decreased $695,958. This is a 18% decrease from fiscal year 2016.
- Total revenues decreased to $2,116,993 from $3,282,699. This is a decrease of $1,165,706 or 36%.
- Total expenses were $2,812,951. Total expenses decreased from $3,469,839 from fiscal year 2016. This is a decrease of $656,888 or 19%.

## Using this Annual Report

This annual report consists of the Management's Discussion and Analysis, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during fiscal year 2017"? The statement of net position includes all assets and deferred outflows, and liabilities and deferred inflows using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal 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 the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Nonfinancial factors include the Academy's facility conditions, required educational programs and other factors.

Table 1 provides a summary of the Academy's net position for fiscal year 2017 compared to fiscal year 2016 as follows:

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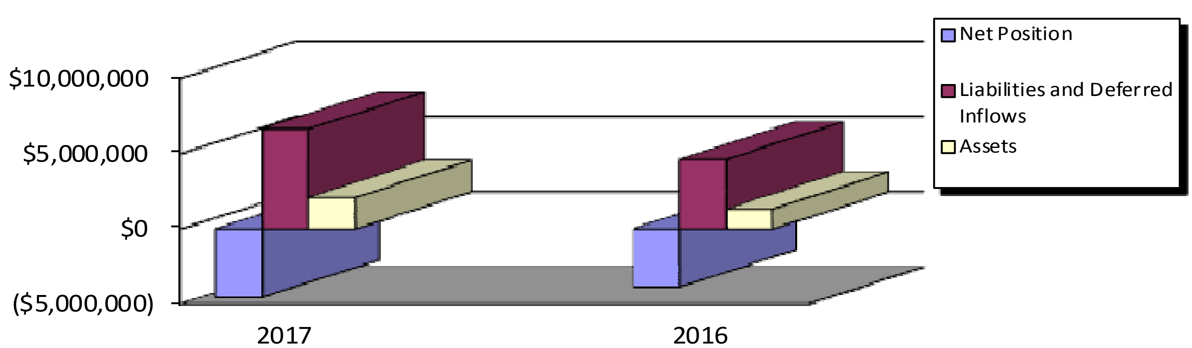
**Table 1**
**Net Position**

| | Governmental Activities | |
|---|---|---|
| | 2017 | 2016 |
| Assets: | | |
| Current and Other Assets | $1,172,839 | $1,305,534 |
| Capital Assets | 6,947 | 12,942 |
| Total Assets | 1,179,786 | 1,318,476 |
| Deferred Outflows of Resources: | | |
| Pension | 902,849 | 667,138 |
| Total Deferred Outflows of Resources | 902,849 | 667,138 |
| Liabilities: | | |
| Other Liabilities | 471,316 | 221,665 |
| Long-Term Liabilities | 5,641,897 | 4,393,578 |
| Total Liabilities | 6,113,213 | 4,615,243 |
| Deferred Inflows of Resources: | | |
| Pension | 519,509 | 1,224,500 |
| Total Deferred Inflows of Resources | 519,509 | 1,224,500 |
| Net Position: | | |
| Net Investment in Capital Assets | 6,947 | 12,942 |
| Restricted | 28,177 | 12,735 |
| Unrestricted | (4,585,211) | (3,879,806) |
| Total Net Position | ($4,550,087) | ($3,854,129) |




Total net position of the Academy decreased by $695,958. The decrease in total net position from fiscal year 2016 is primarily due to a decrease in equity in pooled cash and investments and foundation settlement liability. Long-term liabilities increased due to an increase in Net Pension Liability.

Table 2 shows the changes in net position for the fiscal years ended June 30, 2017 and 2016.

**Table 2**
**Changes in Net Position**

| | Fiscal Year 2017 | Fiscal Year 2016 |
|---|---|---|
| Operating Revenues: | | |
| State Foundation | $1,713,940 | $2,895,018 |
| Fees | 403 | 400 |
| Other Revenues | 16,729 | 64,916 |
| Total Operating Revenues | 1,731,072 | 2,960,334 |
| Operating Expenses: | | |
| Salaries | 1,427,363 | 1,797,392 |
| Fringe Benefits | 372,210 | 442,462 |
| Purchased Services | 934,891 | 1,073,171 |
| Materials and Supplies | 38,396 | 110,545 |
| Depreciation | 5,995 | 11,243 |
| Other Expenses | 34,096 | 35,026 |
| Total Operating Expenses | 2,812,951 | 3,469,839 |
| Operating Income (Loss) | (1,081,879) | (509,505) |
| Non-Operating Revenues (Expenses): | | |
| Investment Earnings | 8,484 | 8,324 |
| State and Federal Grants | 377,437 | 314,041 |
| Total Non-Operating Revenues (Expenses) | 385,921 | 322,365 |
| Change in Net Position | (695,958) | (187,140) |
| Net Position - Beginning of Year | (3,854,129) | (3,666,989) |
| Net Position - End of Year | ($4,550,087) | ($3,854,129) |

The Academy's activities consist of enterprise activity. Community schools receive no support from taxes.

Foundation payments decreased from $2,895,018 in fiscal year 2016 to $1,713,940 in fiscal year 2017. Foundation payments decreased because student average daily membership decreased in fiscal year 2017 from fiscal year 2016 and because of an ODE claw back settlement. Foundation payments are based on student enrollment. The State Foundation Program is, by far, the primary support for the Academy's students.

Total non-operating revenues increased from $322,365 in fiscal year 2016 to $385,921 in fiscal year 2017. This increase is primarily due to an increase in grants non-operating revenue of $63,396.

Total expenses decreased in fiscal year 2017 as compared to fiscal year 2016 due to a decrease in salaries, purchased services, and materials and supplies.

**Capital Assets**

At the end of fiscal year 2017, the Academy had $6,947 in furniture and equipment. Table 3 shows fiscal year 2017 balances compared to fiscal year 2016 as follows:

**Table 3**
**Capital Assets at Year End**
**(Net of Depreciation)**

| | Fiscal Year | |
|---|---|---|
| | 2017 | 2016 |
| Furniture and Equipment | $6,947 | $12,942 |

Depreciation operating expense of $5,995 accounts for the decrease in capital assets. For further information on capital assets, see Note 4 of the notes to the basic financial statements.

**For the Future**

The Academy's focus will be to increase its current enrollment. There has been a recent drop in enrollment after the Academy changed locations. However, we believe this is only a short term decrease and expect future enrollment to increase. Since the Academy has seen a drop in enrollment, the school began to take steps to reduce expenses in fiscal year 2017 and beyond.

The Academy plans to participate in the federal grant programs passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan every fiscal year in the future. These grant funds enhance the operations of the Academy.

As a result, the Academy's management must diligently plan expenses, staying carefully within the Academy's five-year plan.

The Academy's management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. Financially, the future is not without challenges.

**Contacting the Academy's Management**

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Fiscal Officer, at Akron Digital Academy, 1879 Deerfield Rd, Lebanon, Ohio 45036.

Akron Digital Academy
Statement of Net Position
June 30, 2017

| | |
|---|---|
| Assets: | |
| Current Assets: | |
| Cash and Investments | $1,065,139 |
| Receivables: | |
| Accounts | 4,148 |
| Intergovernmental | 99,176 |
| Prepayments | 4,376 |
| Total Current Assets | 1,172,839 |
| Noncurrent Assets: | |
| Depreciable Capital Assets, Net | 6,947 |
| Total Noncurrent Assets | 6,947 |
| Total Assets | 1,179,786 |
| Deferred Outflows of Resources: | |
| Pension | 902,849 |
| Liabilities: | |
| Current Liabilities: | |
| Accounts Payable | 8,029 |
| Accrued Wages and Benefits | 147,587 |
| Intergovernmental payable | 315,700 |
| Total Current Liabilities | 471,316 |
| Long-Term Liabilities: | |
| Net Pension Liability | 5,263,049 |
| Intergovernmental payable | 378,848 |
| Total Long-Term Liabilities | 5,641,897 |
| Total Liabilities | 6,113,213 |
| Deferred Inflows of Resources: | |
| Pension | 519,509 |
| Net Position: | |
| Investment in Capital Assets | 6,947 |
| Restricted | 28,177 |
| Unrestricted | (4,585,211) |
| Total Net Position | ($4,550,087) |

See accompanying notes to the basic financial statements.

Akron Digital Academy
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

| | |
|---|---|
| Operating Revenues: | |
| Fees | $403 |
| Foundation Payments | 1,713,940 |
| Other Operating Revenues | 16,729 |
| Total Operating Revenues | 1,731,072 |
| Operating Expenses: | |
| Salaries | 1,427,363 |
| Fringe Benefits | 372,210 |
| Purchased Services | 934,891 |
| Materials and Supplies | 38,396 |
| Depreciation | 5,995 |
| Other | 34,096 |
| Total Operating Expenses | 2,812,951 |
| Operating Income (Loss) | (1,081,879) |
| Non-Operating Revenues (Expenses): | |
| Investment Earnings | 8,484 |
| State and Federal Grants | 377,437 |
| Total Non-Operating Revenues (Expenses) | 385,921 |
| Change in Net Position | (695,958) |
| Net Position - Beginning of Year | (3,854,129) |
| Net Position - End of Year | ($4,550,087) |

See accompanying notes to the basic financial statements.

Akron Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

| | |
|---|---|
| Cash Flows from Operating Activities: | |
| Cash Received from State Foundation | $2,408,488 |
| Other Operating Cash Receipts | 17,132 |
| Cash Payments to Employees for Salaries and Benefits | (1,942,896) |
| Cash Payments for Goods and Services | (975,768) |
| Cash Payments for Other Expenses | (34,096) |
| Net Cash Provided (Used) by Operating Activities | (527,140) |
| Cash Flows from Noncapital Financing Activities: | |
| Cash Received from State and Federal Grants | 404,849 |
| Net Cash Provided (Used) by Noncapital Financing Activities | 404,849 |
| Cash Flows from Investing Activities: | |
| Earnings on Investments | 8,484 |
| Net Cash Provided (Used) by Cash Flows from Investing Activities | 8,484 |
| Net Increase (Decrease) in Cash and Investments | (113,807) |
| Cash and Investments - Beginning of Year | 1,178,946 |
| Cash and Investments - End of Year | $1,065,139 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | ($1,081,879) |
| Adjustments: | |
| Depreciation | 5,995 |
| Changes in Assets & Liabilities: | |
| (Increase) Decrease in Receivables | (4,148) |
| (Increase) Decrease in Deferred Outflows for Pension | (235,711) |
| (Increase) Decrease in Prepayments | (4,376) |
| Increase (Decrease) in Accrued Liabilities | 630,980 |
| Increase (Decrease) in Payables | (2,481) |
| Increase (Decrease) in Net Pension Liability | 869,471 |
| Increase (Decrease) in Deferred Inflows for Pension | (704,991) |
| Net Cash Provided (Used) by Operating Activities | ($527,140) |

See accompanying notes to the basic financial statements.

## Note 1 – Description of the Academy

The Akron Digital Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in seventh through the twelfth grade. The Academy is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the Academy's program.

The Academy began operations on October 7, 2002. The Academy was approved for operation under a contract with the Warren County Educational Service Center (Sponsor) for a period of five years beginning on July 1, 2013. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a self-appointed, five-member Board of Directors. The Board consists of five individuals representing the interest of parents and students. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy is staffed by 31 employees who provide services to 308 students.

## Note 2 – Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with the generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Academy's accounting policies are described below.

### Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows.

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

### Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

### Basis of Accounting

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

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

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the years 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.

### Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code, Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor prescribes that each year of the Contract, on or before June 30, a revised school budget shall be submitted to the Sponsor. The budget must detail estimated revenues and expenses. Revenues include the base formula amount that will be used for purpose of funding calculations under section 3314.08 of the Ohio Revised Code. The base formula amount for any year shall not exceed the dollar formula amounts specified for the year by the Ohio Department of Education, must be included in the budget, and projected expenses must include the total estimated per pupil expenditure amount for each year. Should the Sponsor request further breakdown of revenue of expenses, or line items for expenses or revenue not projected, the Academy agrees to revise or comply with such requests. Should the Academy be managed by a third-party management company, the School Governing Authority must procure from such management company, sufficient data, to allow the Sponsor to review revenue and expenses as required or permitted by law. Under Ohio Revised Code Section 5705.391, the Academy must prepare a five-year funding plan and submit it to the Ohio Superintendent of Public Instruction.

### Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over four to ten years for furniture and equipment.

**Net Position**

Net Position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is 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 governments. The Academy applies restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

**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.

**Operating Revenues and Expenses**

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

**Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The Academy participated in the following federal grant programs which are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan (CCIP): Part B-IDEA Special Education, Title I, and Title II-A Improving Teacher Quality. The Academy was awarded a total of $377,437 during the fiscal year ended June 30, 2017 for these programs. Revenues received from these programs are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

**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.

## Note 3 – Deposits and Investments

### Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end June 30, 2017, the carrying amount of the Academy's deposits totaled $621,517 and the bank balance was $674,910. Of the bank balance, $252,667 was covered by the Federal Deposit Insurance Corporation and $422,243 of the Academy's bank balance was not exposed to custodial risk.

The Academy has no deposit policy for custodial risk. Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% 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 the Federal Reserve Bank or at member banks of the Federal Reserve system in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

### Investments

Investments are reported at fair value. As of June 30, 2017, the Academy had the following investment:

| Investment Type | Fair Value | Fair Value Hierarchy | Weighted Average Maturity (Years) |
|---|---|---|---|
| Life Insurance Annuity | $443,622 | N/A | 0.07 |

The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Academy's recurring fair value measurements as of June 30, 2017. All investments of the Academy are valued using quoted market prices (Level 1 inputs).

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Academy will not directly invest in securities maturing more than five years from the date of purchase. The Academy does not have an investment policy to address this risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Investments in Life Insurance Annuity is not rated. The Academy does not have a policy to address credit risk for investments.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Academy has invested 100 percent in the Life Insurance Annuity. The Academy does not have an investment policy to address this risk.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Academy's investments are either insured and registered in the name of the Academy or at least registered in the name of the Academy. The Academy does not have a policy to address custodial credit risk beyond the requirement of state statue.

## Note 4 - Capital Assets

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

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| ***Capital Assets, being depreciated:*** | | | | |
| Furniture and Equipment | $211,772 | $0 | $0 | $211,772 |
| Totals at Historical Cost | 211,772 | 0 | 0 | 211,772 |
| Less Accumulated Depreciation: | | | | |
| Furniture and Equipment | 198,830 | 5,995 | 0 | 204,825 |
| Total Accumulated Depreciation | 198,830 | 5,995 | 0 | 204,825 |
| Governmental Activities Capital Assets, Net | $12,942 | ($5,995) | $0 | $6,947 |

## Note 5 – Long-Term Debt Obligations

| | Beginning Outstanding | Additions | Deductions | Ending Outstanding | Due In One Year |
|---|---|---|---|---|---|
| Intergovernmental Payable | $0 | $378,848 | $0 | $378,848 | $0 |
| Net Pension Liability: | | | | | |
| STRS | $3,429,949 | $611,275 | $0 | $4,041,224 | $0 |
| SERS | 963,629 | 258,196 | 0 | 1,221,825 | 0 |
| Total Net Pension Liability | $4,393,578 | $869,471 | $0 | $5,263,049 | $0 |

## Note 6 - Risk Management

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. For fiscal year 2017, the Academy contracted with Agronaut Insurance Company for property, inland marine, crime, general liability, educators legal liability, employers practices liability, automobile coverage and excess liability insurance.

Coverage provided is as follows:

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| Type of Coverage | Coverage Amount |
|---|---|
| Commercial Property ($1,000 deductible): | |
| Building and Contents | $181,337 |
| Commercial Inland Marine ($1,000 deductible) | 400,000 |
| Commercial Crime ($500 deductible) | 50,000 |
| Commercial General Liability (No deductible): | |
| General Aggregate Limit | 3,000,000 |
| Each Occurrence Limit | 1,000,000 |
| Employers Liability | 1,000,000 |
| Educators Legal Liability ($2,500 deductible): | |
| Annual Aggregate | 3,000,000 |
| Each Wrongful Act | 1,000,000 |
| Employment Practices Liability ($2,500 deductible): | |
| Annual Aggregate | 3,000,000 |
| Each Wrongful Act | 1,000,000 |
| Automobile Liability (No deductible) | 1,000,000 |
| Commercial Excess Liability (No deductible) | 1,000,000 |

Settled claims did not exceed commercial coverage in the past two fiscal years and there has not been a significant reduction in coverage from the prior fiscal year.

## Note 7 - Purchased Services

In accordance with the sponsorship contract between the Sponsor and the Academy and in accordance with Ohio Revised Code Section 3314.03, the Academy will pay a sponsorship fee to the Sponsor of an amount not to exceed three percent of the total State Foundation Program payments during the fiscal year for oversight and monitoring. The Academy paid $71,727 to the Sponsor in fiscal year 2017 for the services provided by the Sponsor during fiscal year 2017.

For the fiscal year ended June 30, 2017, purchased service expenses were comprised of the following:

| Purchased Services | Amounts |
|---|---|
| Professional and Technical Services | $574,277 |
| Property Services | 183,962 |
| Travel and Meeting | 12,527 |
| Communications | 93,932 |
| Utilities Services | 43,212 |
| Contracted Craft and Trade Services | 4,471 |
| Pupil Transportation Services | 22,510 |
| Total Purchased Services | $934,891 |

## Note 8 - 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 employer's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the obligation for this liability to annually required payments. The employer cannot control benefit terms or the manner in which pensions are financed; however, the employer 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 wages and benefits on the accrual basis of accounting.

### Plan Description - School Employees Retirement System (SERS)

Plan Description – 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<br>Age 65 with 5 years of service credit | Age 67 with 10 years of service credit; or<br>Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit<br>Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or<br>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 or $86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the employer 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 14.00 percent. None of the 14 percent contribution rate was allocated to the Health Care Fund.

The contractually required contribution to SERS was $61,094 for fiscal year 2017. Of this amount $0 is reported as accrued wages and benefits.

**Plan Description - State Teachers Retirement System (STRS)**

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

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

With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member’s defined contribution account or the defined contribution portion of a member’s Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The employer 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 contractually required contribution to STRS was $144,114 for fiscal year 2017. Of this amount $20,904 is reported as accrued wages and benefits.

**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 actuarial valuation as of that date. The proportion of the net pension liability was based on the share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportionate Share of the Net Pension Liability | $1,221,825 | $4,041,224 | $5,263,049 |
| Proportion of the Net Pension Prior Measurement Date | 0.01688770% | 0.01241068% | |
| Proportion of the Net Pension Current Measurement Date | 0.01669370% | 0.01207308% | |
| Change in Proportion | 0.00019400% | 0.00033760% | |
| Pension Expense | 105,944 | 28,033 | 133,977 |

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

| | SERS | STRS | Total |
|---|---|---|---|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | $16,480 | $163,285 | $179,765 |
| Changes of assumptions | 81,563 | 0 | 81,563 |
| Net difference between projected and actual earnings on pension plan investments | 100,783 | 335,530 | 436,313 |
| Contributions subsequent to the measurement date | 61,094 | 144,114 | 205,208 |
| Total Deferred Outflows of Resources | $259,920 | $642,929 | $902,849 |
| Deferred Inflows of Resources | | | |
| Changes in employer proportionate share of net pension liability | $62,961 | $456,548 | $519,509 |
| Total Deferred Inflows of Resources | $62,961 | $456,548 | $519,509 |

$205,208 reported as deferred outflows of resources related to pension resulting from 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:

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| Fiscal Year Ending June 30: | SERS | STRS | Total |
|---|---|---|---|
| 2018 | $21,033 | ($66,821) | ($45,788) |
| 2019 | 20,960 | (66,821) | (45,861) |
| 2020 | 64,901 | 61,931 | 126,832 |
| 2021 | 28,971 | 113,978 | 142,949 |
| Total | $135,865 | $42,267 | $178,132 |

**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 | 3.50-18.20 percent |
| COLA or Ad Hoc COLA | 3.00 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

**Discount Rate**

The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment 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 investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the 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%) |
|---|---|---|---|
| Proportionate share of the net pension liability | $1,617,620 | $1,221,825 | $890,528 |

**Actuarial Assumptions - STRS**

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

| | |
|---|---|
| Inflation | 2.75 percent |
| Projected salary increases | 2.75 percent at age 70 to 12.25 percent at age 20 |
| Investment Rate of Return | 7.75 percent, net of investment expenses, including inflation |
| 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, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

### Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

### Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| Proportionate share of the net pension liability | $5,370,458 | $4,041,224 | $2,919,936 |

### 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 the net pension liability is expected to be significant.

## Note 9 - Post Employment Benefits

### *School Employees Retirement System*

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

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at $23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2017, 2016, and 2015 were $1,389, $1,320, and $6,261, respectively.

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

The financial reports of SERS' Health Care plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

***State Teachers Retirement System***

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $0 for all three years.

## Note 10 - Contingencies

### 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2017.

### Litigation

The Academy is involved in no material litigation as either plaintiff or defendant.

## Note 11 - Enrollment FTE

### State Foundation Funding

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 for fiscal years 2016 and 2017.

The Academy appealed their fiscal year 2016 FTE review, which as of the date of this report, has not been settled. As a result, the impact of the appealed FTE Review on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in a liability of the Academy. As of the date of this report, ODE adjustments for fiscal year 2017 have been finalized. As a result, the impact of future FTE adjustments will total $694,548 with 22 monthly payments of $31,570 being deducted from the State Foundation, which began on the September 2017 payment.

The Academy had two contracts in fiscal year 2017 directly tied to the school's FTE, which includes the Academy's Fiscal Agent contract and School Sponsor contract. Both contracts are with the Warren County Educational Service Center. As of the date of this report, no final repayment agreement for fiscal year 2017 overpayment have been finalized, but the Academy has put a school policy in place to recover any overpayment made.

## Note 12 - Federal Tax-Exempt Status

The Academy is a nonprofit corporation that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

## Note 13 – 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 establishes improved financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present.

Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The implementation of GASB Statement No 77 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). 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 additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Academy.

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# REQUIRED SUPPLEMENTARY INFORMATION

Akron Digital Academy
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Academy's Proportion of the Net Pension Liability | 0.01207308% | 0.01241068% | 0.01462562% | 0.01462562% |
| Academy's Proportionate Share of the Net Pension Liability | $4,041,224 | $3,429,949 | $3,557,457 | $4,226,208 |
| Academy's Covered-Employee Payroll | $1,182,514 | $1,177,843 | $1,609,284 | $1,440,398 |
| Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 341.75% | 291.21% | 221.06% | 293.41% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.80% | 72.10% | 74.70% | 74.70% |

(1) - Information prior to 2014 is not available

Note-Amounts presented as of the Academy's measurement date which is the prior fiscal year end.

Akron Digital Academy
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Academy's Proportion of the Net Pension Liability | 0.01669370% | 0.01688770% | 0.018705% | 0.018705% |
| Academy's Proportionate Share of the Net Pension Liability | $1,221,825 | $963,629 | $946,649 | $1,112,660 |
| Academy's Covered-Employee Payroll | $597,000 | $617,390 | $549,025 | $718,480 |
| Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 204.66% | 156.08% | 172.42% | 154.86% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 62.98% | 69.16% | 71.70% | 71.70% |

(1) - Information prior to 2014 is not available

Note- Amounts presented as of the Academy's measurement date which is the prior fiscal year end.

Akron Digital Academy
Required Supplementary Information
Schedule of Academy Contributions
State Teachers Retirement System of Ohio
Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Contractually Required Contribution | $144,114 | $165,552 | $164,898 | $209,207 |
| Contributions in Relation to the Contractually Required Contribution | (144,114) | (165,552) | (164,898) | (209,207) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| Academy Covered-Employee Payroll | $1,029,386 | $1,182,514 | $1,177,842 | $1,609,284 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 14.00% | 14.00% | 13.00% |

(1) - Information prior to 2014 is not available

Akron Digital Academy
Required Supplementary Information
Schedule of Academy Contributions
School Employees Retirement System of Ohio
Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Contractually Required Contribution | $61,094 | $83,580 | $81,372 | $76,095 |
| Contributions in Relation to the Contractually Required Contribution | (61,094) | (83,580) | (81,372) | (76,095) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| Academy Covered-Employee Payroll | $436,386 | $597,000 | $617,390 | $549,025 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 14.00% | 13.18% | 13.86% |

(1) - Information prior to 2014 is not available

## Note 1 – SERS Change in Assumptions

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (1) discount rate was reduced from 7.75% to 7.50%, (2) the assumed rate of inflation was reduced from 3.25% to 3.00%, (3) payroll growth assumption was reduced from 4.00% to 3.50%, (4) assumed real wage growth was reduced from 0.75% to 0.50%, (5) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (6) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (7) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (8) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

## Note 2 – STRS Change in Assumptions

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

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Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306

***Charles E. Harris & Associates, Inc.***
*Certified Public Accountants*

Office phone - (216) 575-1630
Fax - (216) 436-2411

**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***

Akron Digital Academy
Summit County
335 S. Main Street
Akron, Ohio 44308

To the Board of Directors:

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 Akron Digital Academy, Summit 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 November 27, 2017.

***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 Academy'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 Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles E. Harris & Associates

***Charles E. Harris & Associates, Inc.***
November 27, 2017

AKRON DIGITAL ACADEMY
SUMMIT COUNY
For the Year Ended June 30, 2017

SCHEDULE OF PRIOR AUDIT FINDINGS

| FINDING NUMBER | FUNDING SUMMARY | STATUS | ADDITIONAL INFORMATION |
|---|---|---|---|
| 2016-001 | Pursuant to ORC 3314.08(H), the Ohio Department of Education conducted a final FTE review for Akron Digital Academy, which included a review of log-in and log-out records and non-classroom documentation. The Academy must update its computer software's ability to track and document each student's time logged into online learning opportunities. | Corrective action taken | |

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Dave Yost • Auditor of State

**AKRON DIGITAL ACADEMY**

**SUMMIT COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**APRIL 17, 2018**

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