

***NEWBRIDGE MATH AND READING  
PREPARATORY ACADEMY***

***FRANKLIN COUNTY, OHIO***

**FINAL AUDIT**

**For the Year Ended June 30, 2018**





# OHIO AUDITOR OF STATE KEITH FABER



Newbridge Math and Reading Preparatory Academy  
3320 West Market Street  
Fairlawn, Ohio 44333

We have reviewed the *Independent Auditor's Report* of the Newbridge Math and Reading Preparatory Academy, Franklin County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. 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 Newbridge Math and Reading Preparatory Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

March 20, 2019

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**Newbridge Math and Reading Preparatory Academy  
Franklin County**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position .....	9
Statement of Revenues, Expenditures and Changes in Net Position .....	10
Statement of Cash Flows .....	11
Notes to the Basic Financial Statements .....	12
Required Supplementary Information:	
Schedule of the School's Proportionate Share of the Net Pension Liability – Last Five Fiscal Years .....	37
Schedule of School's Contributions – Pension - Last Six Fiscal Years .....	38
Schedule of the School's Proportionate Share of the Net OPEB Liability – Last Two Fiscal Years .....	41
Schedule of School's Contributions – OPEB - Last Six Fiscal Years .....	42
Notes to Required Supplementary Information.....	44
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with <i>Government Auditing Standards</i> .....	46

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**INDEPENDENT AUDITOR'S REPORT**

Newbridge Math and Reading Preparatory Academy  
Franklin County

St. Aloysius Orphanage (Sponsor)  
4721 Reading Road  
Cincinnati, Ohio 45237

To the Newbridge Math and Reading Preparatory Academy and Sponsor:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Newbridge Math and Reading Preparatory Academy, Franklin County, Ohio (the School), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for 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 School'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 School'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 Newbridge Math and Reading Preparatory Academy, Franklin County, Ohio, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 16 to the financial statements, the Academy closed effective June 30, 2018 as approved by the Board of Education on July 26, 2018. We did not modify our opinion regarding this matter.

As discussed in Note 3 to the financial statements, during the year ended June 30, 2018, the School adopted new guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension liabilities, other postemployment liabilities, and pension and other postemployment 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 January 28, 2019, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 School'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 School's internal control over financial reporting and compliance.



**Charles E. Harris & Associates, Inc.**  
January 28, 2019

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*(Unaudited)*

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The discussion and analysis of NewBridge Math and Reading Preparatory Academy's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the School's financial performance.

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

### **Financial Highlights**

Key financial highlights for fiscal year 2018 are as follows:

- In total, net position increased \$58,177, which represents an increase of 3.7 percent from 2017.
- Total assets decreased \$294,542, which represents a 54.6 percent decrease from 2017.
- Total liabilities decreased \$719,475, which represents a 24.5 percent decrease from 2017.
- The School implemented GASB 75, which reduced beginning net position as previously reported by \$470,846.
  - A decrease in net pension liability and net OPEB liability substantially decreased fringe benefits (reported as pension/OPEB expense) compared to fiscal year 2017. See further explanation after Table 1.

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2018, the School adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*(Unaudited)*

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GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from (\$1,090,867) to (\$1,561,713).

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*(Unaudited)*

**Using this Financial Report**

This report consists of three parts, the Required Supplementary Information, the financial statements, and notes to the financial statements. The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

**Statement of Net Position**

The statement of net position answers the question of how well the School performed financially during 2018. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the School's net position for fiscal years 2017 and 2018.

**(Table 1)**  
**Statement of Net Position**

	<u>2018</u>	<u>Restated 2017</u>
<b>Assets</b>		
Current Assets	\$ 244,483	\$ 377,276
Noncurrent Assets	<u>0</u>	<u>161,749</u>
<i>Total Assets</i>	<u>244,483</u>	<u>539,025</u>
 <b>Deferred Outflows</b>	 <u>927,055</u>	 <u>882,962</u>
 <b>Liabilities</b>		
Current Liabilities	237,144	114,142
Long Term Liabilities	<u>1,975,036</u>	<u>2,817,513</u>
<i>Total Liabilities</i>	<u>2,212,180</u>	<u>2,931,655</u>
 <b>Deferred Inflows</b>	 <u>462,894</u>	 <u>52,045</u>
 <b>Net Position</b>		
Investment in Capital Assets	0	23,755
Unrestricted	<u>(1,503,536)</u>	<u>(1,585,468)</u>
<i>Total Net Position</i>	<u><u>\$ (1,503,536)</u></u>	<u><u>\$ (1,561,713)</u></u>

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*(Unaudited)*

Total assets decreased \$294,542. This decrease is primarily due to a decrease in cash from expenses exceeding revenues. The loan receivable is due in full in fiscal year 2019 resulting in fluctuation between noncurrent and current assets for the balance of \$90,000. Capital assets decreased \$31,749 due to depreciation.

The significant decrease in net pension liability is largely the result of a change in benefit terms in which STRS reduced their COLA to zero coupled by a slight reduction in COLA benefits by SERS. The significant changes in pension and OPEB deferred outflows and pension deferred inflows are primarily from changes in proportionate share of contributions. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

The School operates under a management agreement with The Educational Empowerment Group, LLC (see notes to the financial statements, Note 15).

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

Table 2 shows the change in net position for fiscal years 2018 and 2017.

**(Table 2)**  
**Change in Net Position**

	2018	2017
Operating Revenue	\$ 1,335,089	\$ 1,782,686
Non-Operating Revenue	639,969	569,779
Total Revenue	1,975,058	2,352,465
Operating Expenses	1,866,881	2,349,677
Non-Operating Expense	50,000	2,222
Total Expenses	1,916,881	2,351,899
Change In Net Position	\$ 58,177	\$ 566

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$2,682 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$32,659. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*(Unaudited)*

Total 2018 Program Expenses under GASB 75		\$	1,916,881
Negative OPEB Expense under GASB 75			32,659
2018 Contractually Required Contribution			7,180
Adjusted 2018 Program Expenses			1,956,720
Total 2017 Program Expenses under GASB 45			2,351,899
Decrease in Program Expenses not Related to OPEB			\$ (395,179)

The decrease in overall revenues was primarily due to the decrease in state basic aid .The School’s most significant expenses, “Purchased services” are a result of the management agreement in place between the School and EEG, LLC. Effective July 1, 2017, the School entered into a management agreement (Agreement) with Educational Empowerment Group, LLC (EEG, LLC), which is an educational consulting and management company. The term of the Agreement with EEG, LLC is for 3 years and will renew for additional, successive three (3) year terms. The agreement provides that specific percentages of the revenues received by the School will be paid to EEG, LLC to fund operations (see notes to the financial statements, note 15).

See financial highlights for explanation of fluctuations in operating expenses.

**Capital Assets**

At the end of fiscal year 2018, the School’s capital assets were fully depreciated. Table 3 shows the balance for fiscal year 2018 compared to 2017.

(Table 3)  
**Capital Assets (Net of Depreciation)**

		2018		2017
Furniture and Fixtures	\$	0	\$	31,749

For more information on capital assets, see Note 11 in the notes to the financial statements.

**Contacting the School’s Financial Management**

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

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**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Statement of Net Position*  
*June 30, 2018*

**ASSETS**

Current Assets

Cash & Cash Equivalents	\$	164,483
Loan Receivable		80,000

<b>Total Assets</b>		<b>244,483</b>
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**DEFERRED OUTFLOWS OF RESOURCES**

Pension		861,361
OPEB		65,694

<b>Total Deferred Outflows of Resources</b>		<b>927,055</b>
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**LIABILITIES**

Current Liabilities

Accounts Payable		118,416
Accrued Wages and Benefits		118,728

Total Current Liabilities		237,144
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Long Term Liabilities

Net Pension Liability		1,576,295
Net OPEB Liability		398,741

Total Long Term Liabilities		1,975,036
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<b>Total Liabilities</b>		<b>2,212,180</b>
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**DEFERRED INFLOWS OF RESOURCES**

Pension		364,934
OPEB		97,960

<b>Total Deferred Inflows of Resources</b>		<b>462,894</b>
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**NET POSITION**

Unrestricted Net Position		(1,503,536)
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<b>Total Net Position</b>		<b>\$ (1,503,536)</b>
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See accompanying notes to the basic financial statements.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Statement of Revenues, Expenses, and Changes in Net Position*  
*For the Fiscal Year Ended June 30, 2018*

**OPERATING REVENUES**

State Basic Aid	\$ 1,289,342
Facilities Aid	29,852
Other Operating Revenue	6,218
Casino Revenue	9,677
	9,677

<b>Total Operating Revenues</b>	<b>1,335,089</b>
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**OPERATING EXPENSES**

Employee Salaries And Wages	901,514
Fringe Benefits	(203,918)
Purchased Services	972,137
Materials and Supplies	140,834
Depreciation	31,749
Other Expenses	24,565
	24,565

<b>Total Operating Expenses</b>	<b>1,866,881</b>
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<b>Operating Income (Loss)</b>	<b>(531,792)</b>
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**NON-OPERATING REVENUES (EXPENSES)**

Federal and State Grants	639,890
Contributions	(50,000)
Interest on Investments	79
	79

<b>Total Non-Operating Revenues</b>	<b>589,969</b>
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<b>Change in Net Position</b>	<b>58,177</b>
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<b>Net Position Beginning of Year (Restated)</b>	<b>(1,561,713)</b>
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<b>Net Position End of Year</b>	<b>\$ (1,503,536)</b>
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See accompanying notes to the basic financial statements.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Statement of Cash Flows*  
*For the Fiscal Year Ended June 30, 2018*

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received From State	\$	1,328,871
Cash Received From Other Operating Sources		6,218
Cash Payments To Employees		(1,151,397)
Cash Payments For Goods And Services		(985,727)
Other Cash Payments		(24,565)
		(826,600)
Net Cash Used For Operating Activities		(826,600)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash Received From Grant Programs		639,890
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Principle Payments-Capital Lease		(7,994)
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash Received from Interest on Investments		79
Net Decrease in Cash and Cash Equivalents		(194,625)
Cash and Cash Equivalents at Beginning of Year		359,108
Cash and Cash Equivalents at End of Year	\$	164,483

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES**

Operating Income (Loss)	\$	(531,792)
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**ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation		31,749
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:		
Ingovernmental Receivable		18,168
Deferred Outflows of Resources		(44,093)
Deferred Inflows of Resources		410,849
Accounts Payable		109,076
Accrued Wages and Benefits		20,731
Net Pension/OPEB Liability		(841,288)
		(294,808)
Total Adjustments		(294,808)
Net Cash Used For Operating Activities	\$	(826,600)

**NON-CASH FINANCING AND INVESTING ACTIVITIES**

Loan Forgiveness to Bridge Gate Community School	\$	(50,000)
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See accompanying notes to the basic financial statements.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

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

The School was approved for operation under contract with St. Aloysius Orphanage (the Sponsor) for a period of one year starting June 2016, ending on June 30, 2017, and renewed through June 30, 2018. The School operates under a self-appointing five-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility. The facility is staffed with teaching personnel who provide services to 153 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Basis of Presentation***

The School'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 School uses enterprise accounting to report on its financial activities. 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.

***Measurement Focus and Basis of Accounting***

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

**Newbridge Math and Reading Preparatory Academy**

**Franklin County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**Budgetary Process**

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

***Cash and Cash Equivalents***

All cash received by the School is maintained in a demand deposit account. The School did not have any investments during fiscal year 2018.

***Capital Assets and Depreciation***

For purposes of recording capital assets, the Board has a capitalization threshold of \$1,000.

Capital assets were fully depreciated at June 30, 2018. Depreciation is computed by the straight-line method over three years for “Furniture and Fixtures” and five to twenty years for “Leasehold Improvements.”

***Loan Receivable***

As of June 30, 2018, the School has a loan receivable from Bridge Gate Community School in the amount of \$80,000, due in full to the School on June 30, 2019. The School forgave \$50,000 in fiscal year 2018 of the original loan amount of \$130,000.

***Intergovernmental Revenues***

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the Career Based Intervention (CBI) Program, which are reflected under “State Aid” on the Statement of Revenues, Expenses and Changes in Net Position. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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***Operating Revenues and Expenses***

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

***Net Position***

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

***Use of Estimates***

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

***Pensions and Other Postemployment Benefits (OPEB)***

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

***Deferred Outflows/Inflows of Resources***

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 6 and 7.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension and OPEB, which are reported on the statement of net position. (See Notes 6 and 7).

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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**NOTE 3 – IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION**

For the fiscal year ended June 30, 2018, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the financial statements. See below for the effect on net position as previously reported.

Net Position, June 30, 2017	\$ (1,090,867)
Adjustments:	
Net OPEB Liability	(473,528)
Deferred Outflow-Payments Subsequent to Measurement Date	<u>2,682</u>
Restated Net Position, July 1, 2017	<u><u>\$ (1,561,713)</u></u>

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the School's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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**NOTE 4 - DEPOSITS**

Protection of the School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

**NOTE 5 - RISK MANAGEMENT**

***Property and Liability*** - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School has contracted with the O'Neil Group for property and general liability insurance. The property insurance limits are \$1,000 deductible and \$385,000 aggregate. The general liability insurance limits are \$1,000,000 each occurrence and \$2,000,000 aggregate. There has been no reduction in coverage over the prior year. There have been no settlements exceeding coverage in the last three years.

***Director and Officer*** - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and no deductible.

***Worker's Compensation*** - The School is responsible for paying the State Workers Compensation System a premium for employee injury coverage.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities

**Newbridge Math and Reading Preparatory Academy  
Franklin County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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*.

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

Plan Description – School non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The School’s contractually required contribution to SERS was \$46,778 for fiscal year 2018.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was \$76,329 for fiscal year 2018.

***Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer’s share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00865480%	0.00445877%	
Prior Measurement Date	0.00617170%	0.00564958%	
Change in Proportionate Share	0.00248310%	-0.00119081%	
Proportionate Share of the Net			
Pension Liability	\$ 517,105	\$ 1,059,190	\$ 1,576,295
Pension Expense	\$ 55,823	\$ (367,409)	\$ (311,586)

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.

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**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

At June 30, 2018 the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 22,257	\$ 40,903	\$ 63,160
Changes of Assumptions	26,739	231,657	258,396
Changes in Proportion and Differences between The School Contributions and Proportionate Share of Contributions	167,571	249,127	416,698
The School Contributions Subsequent to the Measurement Date	46,778	76,329	123,107
<b>Total Deferred Outflows of Resources</b>	<b>\$ 263,345</b>	<b>\$ 598,016</b>	<b>\$ 861,361</b>
<b>Deferred Inflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 0	\$ 8,537	\$ 8,537
Net Difference between Projected and Actual Earnings on Pension Plan Investments	2,455	34,955	37,410
Changes in Proportion and Differences between The School Contributions and Proportionate Share of Contributions	0	318,987	318,987
<b>Total Deferred Inflows of Resources</b>	<b>\$ 2,455</b>	<b>\$ 362,479</b>	<b>\$ 364,934</b>

\$123,107 was reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ 95,146	\$ 89,235	\$ 184,381
2020	93,143	136,789	229,932
2021	37,877	(15,329)	22,548
2022	(12,054)	(51,487)	(63,541)
	<b>\$ 214,112</b>	<b>\$ 159,208</b>	<b>\$ 373,320</b>

***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 terminations). 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.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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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, 2017, 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	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

The actuarial assumptions used in the June 30, 2017 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 most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
The School's Proportionate Share of the Net Pension Liability	\$ 717,608	\$ 517,105	\$ 349,144

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

\*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

\*\*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

***Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
The School's Proportionate Share of the Net Pension Liability	\$ 1,518,313	\$ 1,059,190	\$ 672,448

***Assumption Changes since the Prior Measurement Date***

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

***Benefit Term Changes since the Prior Measurement Date***

Effective July 1, 2017, the COLA was reduced to zero.

**NOTE 7 - DEFINED BENEFIT OPEB PLANS**

***Net OPEB Liability***

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

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

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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](http://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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. 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. For fiscal year 2018, this amount was \$23,700. 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 2018, the School's surcharge obligation was \$5,447.

**Newbridge Math and Reading Preparatory Academy  
Franklin County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$7,180 for fiscal year 2018. Of this amount \$5,447 is reported as an accounts payable.

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB liability was based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.00837550%	0.00445877%	
Prior Measurement Date	0.00601280%	0.00564958%	
Change in Proportionate Share	0.00236270%	-0.00119081%	
Proportionate Share of the Net OPEB Liability	\$ 224,776	\$ 173,965	\$ 398,741
OPEB Expense	\$ 29,523	\$ (62,182)	\$ (32,659)

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 0	\$ 10,042	\$ 10,042
Changes in Proportionate Share and Differences between School Contributions and Proportionate Share of Contributions	48,472	0	48,472
School Contributions Subsequent to the Measurement Date	<u>7,180</u>	<u>0</u>	<u>7,180</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 55,652</u>	<u>\$ 10,042</u>	<u>\$ 65,694</u>
<b>Deferred Inflows of Resources</b>			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 594	\$ 7,436	\$ 8,030
Changes of Assumptions	21,330	14,013	35,343
Changes in Proportionate Share and Differences between School Contributions and Proportionate Share of Contributions	<u>0</u>	<u>54,587</u>	<u>54,587</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ 21,924</u>	<u>\$ 76,036</u>	<u>\$ 97,960</u>

\$7,180 was reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ 9,687	\$ (11,619)	\$ (1,932)
2020	9,687	(11,619)	(1,932)
2021	7,324	(11,619)	(4,295)
2022	(150)	(11,619)	(11,769)
2023	0	(9,760)	(9,760)
Thereafter	<u>0</u>	<u>(9,758)</u>	<u>(9,758)</u>
	<u>\$ 26,548</u>	<u>\$ (65,994)</u>	<u>\$ (39,446)</u>

***Actuarial Assumptions - SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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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 terminations). 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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis

**Newbridge Math and Reading Preparatory Academy  
Franklin County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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 discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School's Proportionate Share of the Net OPEB Liability	\$ 271,446	\$ 224,776	\$ 187,802

  

	1% Decrease	Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	\$ 182,389	\$ 224,776	\$ 280,877

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
	<u>100.00 %</u>	

\*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the

**Newbridge Math and Reading Preparatory Academy  
Franklin County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

***Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate*** The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School's Proportionate Share of the Net OPEB Liability	\$ 233,545	\$ 173,965	\$ 126,877
	1% Decrease	Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	\$ 120,863	\$ 173,965	\$ 243,853

**NOTE 8 - CONTINGENCIES**

***Grants***

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

***Enrollment FTE***

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

**Newbridge Math and Reading Preparatory Academy**

**Franklin County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2018.

As of the date of this report, all ODE adjustments through fiscal year 2018 have been finalized. The \$1,279 owed to the School was not reflected in the accompanying financial statements.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2018 are finalized. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

**NOTE 9 - FEDERAL TAX STATUS**

The School began the process of filing for tax exempt status under section 501(c)(3) of the Internal Revenue Code. In the interim, the School has begun the process to file IRS Form 990, "Return of Organization Exempt from Income Tax".

**NOTE 10 - SPONSORSHIP FEES**

The School contracts with St. Aloysius to be its sponsor effective July 1, 2013. The contract states "...the annual sponsorship fee to be paid to St. Aloysius be set at 3% of the State's annual School Foundation support..." The Sponsor is to provide oversight, monitoring, and technical assistance for the School. Amount paid to St. Aloysius for fiscal year 2018 was \$38,959. In June 2017, the School entered into a one-year agreement with the sponsor ending on June 30, 2018. See Note 16.

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**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

**NOTE 11 - CAPITAL ASSETS**

A summary of the School's capital assets at June 30, 2018, follows:

	Balance 6/30/2018	Additions	Reductions	Balance 6/30/2018
<i>Capital Assets, being depreciated:</i>				
Furniture and Fixtures	\$ 107,616	\$ 0	\$ 0	\$ 107,616
Leasehold Improvements	95,000	0	0	95,000
Total Capital Assets, being depreciated	<u>202,616</u>	<u>0</u>	<u>0</u>	<u>202,616</u>
Less Accumulated Depreciation:				
Furniture and Fixtures	(75,867)	(31,749)	0	(107,616)
Leasehold Improvements	(95,000)	0	0	(95,000)
Total Accumulated Depreciation	<u>(170,867)</u>	<u>(31,749)</u>	<u>0</u>	<u>(202,616)</u>
Total Capital Assets being depreciated, net	<u>\$ 31,749</u>	<u>\$ (31,749)</u>	<u>\$ 0</u>	<u>\$ 0</u>

**NOTE 12 - CAPITAL LEASE OBLIGATIONS**

The School entered into a capitalized lease for the acquisition of a copier totaling \$6,500 during fiscal year 2014. The lease balance of \$388 at June 30, 2017 was paid in full in fiscal year 2018.

The School entered into a capitalized lease for the acquisition of a playground totaling \$23,800 during fiscal year 2014. The lease balance of \$7,606 at June 30, 2017 was paid in full in fiscal year 2018.

**NOTE 13 - PURCHASED SERVICES**

For the period July 1, 2017, through June 30, 2018, purchased service expenses were for the following services:

Personnel Services	\$ 339,908
Professional Services	233,578
Building Services	249,154
Food Service	109,198
Sponsor Services	38,959
<u>Transportation</u>	<u>1,340</u>
Total	\$ 972,137

**Newbridge Math and Reading Preparatory Academy**

**Franklin County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**NOTE 14 - OPERATING LEASES – LESSEE DISCLOSURE**

The School leases space from Hillo Real Estate, LLC located at 3850 Sullivant Avenue beginning August 1, 2013 for three (3) years and ending July 31, 2017 and extended through June 30, 2018. The School pays a monthly payment of \$13,500. Total paid for fiscal year 2018 was \$162,000.

**NOTE 15 - AGREEMENT WITH EDUCATIONAL EMPOWERMENT GROUP, LLC**

Effective July 1, 2016, the School entered into a management agreement (Agreement) with Educational Empowerment Group, LLC (EEG, LLC), which is an educational consulting and management company. The initial term of the Agreement with EEG, LLC will expire on June 30, 2017 and will automatically renew for 3 additional years unless one party notifies the other party no later than six months prior to the term expiration date of its intention to not renew the Agreement. Substantially all functions of the School have been contracted to EEG, LLC. EEG, LLC is responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School is required to pay EEG, LLC a monthly continuing fee of 9 percent of the School's "Qualified gross revenues", defined in the Agreement as, all revenues and income received by the School except for charitable contributions. The continuing fee is paid to EEG, LLC based on the qualified gross revenues. The agreement terminates effective June 30, 2018 upon school closure.

The School had purchased services for the year ended June 30, 2018, to EEG, LLC, of \$116,506 to EEG, LLC. EEG, LLC will be responsible for procuring the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance which are then invoiced to the school or reimbursed to EEG, LLC.

**NOTE 16 – SCHOOL CLOSURE**

On December 1, 2017, the Sponsor sent a non-renewal notice to the School. As a result of the non-renewal, the School closed effective June 30, 2018. The Sponsor is committed to financially supporting the School over the period of time it takes to close the School. The School donated its assets and the bank accounts will be closed and any remaining cash after the School's final expenses and payables have been paid will be paid back to the ODE.

The School has followed closeout procedures prescribed by the Ohio Department of Education (ODE), regarding official notices to ODE, retirement systems, students, staff and the community. Disposition of student records and property owned by the School have also been in accordance with ODE requirements.

**NOTE 17 – SUBSEQUENT EVENTS**

As of November 26, 2018, the School had a cash balance of \$30,529, known other current assets of \$0 and liabilities of \$110,529. The School also had a loan receivable of \$80,000 due from Bridge Gate Community School. The School also donated its capital assets to Bridge Gate Community School. The School has experienced limited activity subsequent to fiscal year-end. Once all costs and liabilities are known and all funds due to the School have been collected, the School will pay its final costs associated with the closure of the School, and any residual cash balance will be remitted to the ODE per Ohio Revised Code Section 3314.074.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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**NOTE 18 – LONG-TERM OBLIGATIONS**

The Academy’s long-term obligations during the year consist of the following:

	Restated Balance <u>6/30/2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/2018</u>	Due Within <u>One Year</u>
Net Pension Liability	\$ 2,342,796	\$ 0	\$(766,501)	\$ 1,576,295	\$ 0
Net OPEB Liability	<u>473,528</u>	<u>0</u>	<u>(74,787)</u>	<u>398,741</u>	<u>0</u>
	<u>\$ 2,816,324</u>	<u>\$ 0</u>	<u>\$(841,288)</u>	<u>\$ 1,975,036</u>	<u>\$ 0</u>

Net Pension / OPEB Liability: See Notes 6 and 7 for information on the Academy’s pension and OPEB liabilities.

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**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Required Supplementary Information*  
*Schedule of the The School's Proportionate Share of the Net Pension Liability*  
*Last Five Fiscal Years (1)*

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b><i>School Employees Retirement System (SERS)</i></b>					
The School's Proportion of the Net Pension Liability	0.00865480%	0.00617170%	0.00417390%	0.00383700%	0.00383700%
The School's Proportionate Share of the Net Pension Liability	\$ 517,105	\$ 451,711	\$ 238,167	\$ 194,188	\$ 228,174
The School's Covered Payroll	\$ 266,271	\$ 180,314	\$ 345,425	\$ 128,521	\$ 49,220
The School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	194.20%	250.51%	68.95%	151.09%	463.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
<b><i>State Teachers Retirement System (STRS)</i></b>					
The School's Proportion of the Net Pension Liability	0.00445877%	0.00564958%	0.00589594%	0.00371743%	0.00371743%
The School's Proportionate Share of the Net Pension Liability	\$ 1,059,190	\$ 1,891,085	\$ 1,629,465	\$ 904,208	\$ 1,077,086
The School's Covered Payroll	\$ 490,186	\$ 628,886	\$ 723,457	\$ 448,085	\$ 153,000
The School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.08%	300.70%	225.23%	201.79%	703.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Required Supplementary Information*  
*Schedule of the The School's Contributions - Pension*  
*Last Six Fiscal Years (1)*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution	\$ 46,778	\$ 37,278	\$ 25,244	\$ 45,527
Contributions in Relation to the Contractually Required Contribution	<u>(46,778)</u>	<u>(37,278)</u>	<u>(25,244)</u>	<u>(45,527)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
The School's Covered Payroll	\$ 346,504	\$ 266,271	\$ 180,314	\$ 345,425
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 76,329	\$ 68,626	\$ 88,044	\$ 101,284
Contributions in Relation to the Contractually Required Contribution	<u>(76,329)</u>	<u>(68,626)</u>	<u>(88,044)</u>	<u>(101,284)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
The School's Covered Payroll	\$ 545,207	\$ 490,186	\$ 628,886	\$ 723,457
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

(1) Information prior to 2013 is not available

See accompanying notes to the required supplementary information.

<u>2014</u>	<u>2013</u>
\$ 17,813	\$ 6,812
<u>(17,813)</u>	<u>(6,812)</u>
<u>\$ 0</u>	<u>\$ 0</u>
\$ 128,521	\$ 49,220
13.86%	13.84%
\$ 58,251	\$ 19,890
<u>(58,251)</u>	<u>(19,890)</u>
<u>\$ 0</u>	<u>\$ 0</u>
\$ 448,085	\$ 153,000
13.00%	13.00%

See accompanying notes to the required supplementary information.

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**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School's Proportionate Share of the Net OPEB Liability*  
*Last Two Fiscal Years (1)*

	<u>2018</u>	<u>2017</u>
<b><i>School Employees Retirement System (SERS)</i></b>		
School's Proportion of the Net OPEB Liability	0.00837550%	0.00601280%
School's Proportionate Share of the Net OPEB Liability	\$ 224,776	\$ 171,387
School's Covered Payroll	\$ 266,271	\$ 180,314
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	84.42%	95.05%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<b><i>State Teachers Retirement System (STRS)</i></b>		
School's Proportion of the Net OPEB Liability	0.00445877%	0.00564958%
School's Proportionate Share of the Net OPEB Liability	\$ 173,965	\$ 302,141
School's Covered Payroll	\$ 490,186	\$ 628,886
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	48.04%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School's Contributions - OPEB*  
*Last Six Fiscal Years (2)*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution (1)	\$ 7,180	\$ 2,682	\$ 2,006	\$ 4,801
Contributions in Relation to the Contractually Required Contribution	<u>(7,180)</u>	<u>(2,682)</u>	<u>(2,006)</u>	<u>(4,801)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 346,504	\$ 266,271	\$ 180,314	\$ 345,425
OPEB Contributions as a Percentage of Covered Payroll (1)	2.07%	1.01%	1.11%	1.39%
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 545,207	\$ 490,186	\$ 628,886	\$ 723,457
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

(2) Information prior to 2013 is not available

See accompanying notes to the required supplementary information.

<u>2014</u>	<u>2013</u>
\$ 1,016	\$ 79
<u>(1,016)</u>	<u>(79)</u>
<u>\$ 0</u>	<u>\$ 0</u>
\$ 128,521	\$ 49,220
0.79%	0.16%
\$ 4,481	\$ 1,530
<u>(4,481)</u>	<u>(1,530)</u>
<u>\$ 0</u>	<u>\$ 0</u>
\$ 448,085	\$ 153,000
1.00%	1.00%

See accompanying notes to the required supplementary information.

**Newbridge Math and Reading Preparatory Academy  
Franklin County, Ohio**

*Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2018*

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**Note 1 - Net Pension Liability**

***Changes in Assumptions - SERS***

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
  - 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 was updated to the following:
  - 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 disable member was updated to the following:
  - 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.

***Changes in Benefit Terms - SERS***

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

***Changes in Assumptions – STRS***

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

***Changes in Benefit Terms - STRS***

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

**Newbridge Math and Reading Preparatory Academy**  
**Franklin County, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2018*

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**Note 2 - Net OPEB Liability**

***Changes in Assumptions – SERS***

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

***Changes in Assumptions – STRS***

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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

Newbridge Math and Reading Preparatory Academy  
Franklin County

St. Aloysius Orphanage (Sponsor)  
4721 Reading Road  
Cincinnati, Ohio 45237

To the Newbridge Math and Reading Preparatory Academy and Sponsor:

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 Newbridge Math and Reading Preparatory Academy, Franklin County, Ohio (the School), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated January 28, 2019. We noted the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We also noted the School closed effective June 30, 2018.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School'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, 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 School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



***Charles E. Harris & Associates, Inc.***  
January 28, 2019

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# OHIO AUDITOR OF STATE KEITH FABER



**NEWBRIDGE MATH AND READING PREPARATORY ACADEMY**

**FRANKLIN COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 2, 2019**