ACADEMY FOR EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE FISCAL YEAR ENDED
JUNE 30, 2017

TODD JOHNSON, TREASURER

Board of Directors
Academy for Educational Excellence
728 Parkside Boulevard
Toledo, Ohio 43607

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

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

Dave Yost
Auditor of State

March 12, 2018

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ACADEMY FOR EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

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Independent Auditor's Report

Academy of Educational Excellence
Lucas County
728 Parkside Boulevard
Toledo, Ohio 43607

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Academy of Educational Excellence, Lucas County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy of Educational Excellence's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy of Educational Excellence's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy of Educational Excellence's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, the Academy of Educational Excellence had a prior period restatement to properly state accrued wages and net position. Also, as discussed in Note 16 to the financial statements, the Academy maintained a net position deficit. Note 16 describes management's plan regarding this matter. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018, on our consideration of the Academy of Educational Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy of Educational Excellence's internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
January 26, 2018

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

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- In total, the Academy's net position increased $357,491, from a restated deficit of $1,280,111 to a deficit of $922,620.

- The Academy had operating revenues of $930,732 and operating expenses of $815,650 during fiscal year 2017. The Academy also recognized non-operating revenue of $242,479 from federal and State grants and entitlements and interest and fiscal charges of $70 during the year.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did the Academy perform financially during 2017?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to accounting used by most private-sector companies. This basis of accounting takes into account all current year revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in net position. The change in net position is important because it tells the reader the extent to which the financial position of the Academy as a whole has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 9 and 10 of this report.

The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its operations. The Statement of Cash Flows can be found on page 11 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13-30 of this report.

In addition to the basic financial statements and accompanying notes, this report as presents certain required supplementary information concerning the Academy's net pension liability. This required supplementary information can be found on pages 33-37 of this report.

The table below provides a summary of the Academy's net position at June 30, 2017 and June 30, 2016. The 2016 net position was rested as described in Note 3.B.

Net Position

	2017	Restated 2016
Assets		
Current assets	$ 304,571	$ 14,826
Non-current assets	8,632	17,525
Total assets	313,203	32,351
Deferred outflows	256,446	175,124
Liabilities		
Current liabilities	294,759	497,582
Long-term liabilities:		
Due within one year	281,385	198,406
Net pension liability	900,572	755,930
Other amounts due in more than one year	-	279
Total liabilities	1,476,716	1,452,197
Deferred inflows	15,553	35,389
Net Position		
Net investment in capital assets	(6,297)	982
Unrestricted (deficit)	(916,323)	(1,281,093)
Total net position (deficit)	$ (922,620)	$ (1,280,111)

The Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

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

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

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

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position.

At June 30, 2017, capital assets represented 2.76 percent of total assets. Capital assets are used to provide services to students and are not available for future spending. Capital assets consist of furniture, fixtures and equipment and vehicles.

The table below shows the changes in net position for the fiscal year 2017 and fiscal year 2016.

Change in Net Position

	2017	2016
Operating Revenues:		
State foundation	$ 916,629	$ 561,063
Sales/charges for services	-	52,900
Other	14,103	1,919
Total operating revenue	930,732	615,882
Operating Expenses:		
Salaries and wages	479,786	276,752
Fringe benefits	125,461	63,398
Purchased services	157,935	381,049
Materials and supplies	43,575	6,670
Other	-	21,878
Depreciation	8,893	8,893
Total operating expenses	815,650	758,640
Non-Operating Revenues (Expenses):		
Federal and State grants	242,479	60,655
Interest and fiscal charges	(70)	(3,399)
Total non-operating revenues (expenses)	242,409	57,256
Change in net position	357,491	(85,502)
Net position (deficit) at beginning of year (restated)	(1,280,111)	$ (1,194,609)
Net position (deficit) at end of year	$ (922,620)	$ (1,280,111)

The revenue generated by community Academies is heavily dependent upon the per-pupil allotment determined by the State foundation program and federal entitlement programs. Foundation payments amounted to 78.13 percent of total revenues received during fiscal year 2017.

Debt Administration

At June 30, 2017 the Academy's long term obligations included a capital lease obligation for copier equipment of $279, notes payable of $29,138 and other liabilities related to long-term accounts payable of $251,968. See Note 10 in the notes to the basic financial statements for further detail relating to the Academy's long term obligations.

Capital Assets

At June 30, 2017, the Academy had $8,632 in capital assets, net of accumulated depreciation. The Academy had $8,893 in depreciation expense and did not have any capital asset additions or disposals during the year. The Academy's capital assets consist of equipment and vehicles. See Note 11 in the notes to the basic financial statements for further detail relating to the Academy's capital assets.

Current Financial Related Activities

The Academy is reliant upon State Foundation monies and State Grants to offer quality educational services to students.

In order to continually provide learning opportunities to the Academy's students, Academy will apply resources to best meet the needs of its students. It is the intent of Academy to apply for other State funds that are made available to finance its operations.

Contacting the Academy's Financial Management

This financial report is designed to provide a general overview of the Academy for Educational Excellence's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Todd Johnson, Treasurer of the Academy, 728 Parkside Boulevard, Toledo, Ohio 43607.

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ACADEMY FOR EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	$ 298,466
Prepayments	6,105
Total current assets	304,571
Non-current assets:	
Depreciable capital assets, net	8,632
Total non-current assets.	8,632
Total assets.	313,203
Deferred outflows of resources:	
Pension - STRS.	218,556
Pension - SERS.	37,890
Total deferred outflows of resources	256,446
Liabilities:	
Current liabilities:	
Accounts payable.	53,015
Accrued wages and benefits	217,969
Pension and postemployment benefits payable.	9,268
Intergovernmental payable	14,507
Total current liabilities	294,759
Non-current liabilities:	
Due within one year.	281,385
Net pension liability	900,572
Total non-current liabilities	1,181,957
Total liabilities	1,476,716
Deferred inflows of resources:	
Pension - STRS.	14,637
Pension - SERS.	916
Total deferred inflows of resources	15,553
Total liabilities	1,492,269
Net position:	
Net investment in capital assets	(6,297)
Unrestricted (deficit).	(916,323)
Total net position (deficit).	$ (922,620)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

ACADEMY FOR EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
Foundation revenue	$ 916,629
Other	14,103
Total operating revenues	930,732
Operating expenses:	
Salaries and wages.	479,786
Fringe benefits.	125,461
Purchased services.	157,935
Materials and supplies	43,575
Depreciation	8,893
Total operating expenses.	815,650
Operating income	115,082
Non-operating revenues (expenses):	
Federal and State operating grants.	242,479
Interest and fiscal charges	(70)
Total non-operating revenues (expenses)	242,409
Change in net position	357,491
Net position (deficit) at beginning of year (restated) .	(1,280,111)
Net position (deficit) at end of year	$ (922,620)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

ACADEMY FOR EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:		
Cash received from State foundation	$	929,976
Cash received from other operations		14,103
Cash payments for salaries and wages.		(442,808)
Cash payments for fringe benefits		(77,938)
Cash payments for contractual services		(322,987)
Cash payments for materials and supplies		(54,896)
Net cash provided by operating activities.		45,450
Cash flows from noncapital financing activities:		
Federal and State operating grants.		242,479
Net cash provided by noncapital financing activities.		242,479
Cash flows from capital and related financing activities:		
Interest and fiscal charges		(70)
Principal retirement on capital lease		(1,614)
Net cash used in capital and related financing activities.		(1,684)
Net increase in cash and cash equivalents.		286,245
Cash and cash equivalents at beginning of year . . .		12,221
Cash and cash equivalents at end of year	$	298,466
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	115,082
Adjustments:		
Depreciation		8,893
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable.		100
Intergovernmental receivable.		31
Prepayments		(3,631)
Accounts payable.		(257,858)
Other long-term payable.		84,314
Accrued wages and benefits		36,878
Intergovernmental payable		11,022
Pension and postemployment benefits payable. . . .		7,135
Net pension liability		144,642
Deferred outflows - pensions		(81,322)
Deferred inflows - pensions.		(19,836)
Net cash provided by operating activities	$	45,450

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTE 1 - DESCRIPTION OF THE ACADEMY

The Academy for Educational Excellence (the "Academy") is a non-profit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 to serve students in grades Kindergarten through 3 and ages 5 through 9. The Academy focuses on literacy and technology. The Academy is nonsectarian in its programs, admission policies, employment practices and all other operations.

The Academy was approved for sponsorship under contract resolution on March 15, 2012 with North Central Ohio Educational Service Center (the "Sponsor") for a period of five years commencing on July 1, 2012. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the Academy's one instructional/support facility staffed by 7 non-certified and 10 certified teaching personnel who provide services to 119 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy 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 Academy's accounting policies are described below.

A. Basis of Presentation

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

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

B. Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy received value without directly giving equal value in return, such as grants, entitlements, and donations are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Budgetary Process

Unlike traditional public Academy's located in the State of Ohio, community academies are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed Academy budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

D. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents 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 Academy, see Note 6 for deferred outflows of resources related the Academy's net pension liability.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements 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 as an inflow of resources (revenue) until that time. For the Academy, see Note 6 for deferred inflows of resources related to the Academy's net pension liability.

E. Cash and Cash Equivalents

All cash received by the Academy is maintained in demand deposit accounts. The Academy did not have any investments during fiscal year 2017.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Academy maintains a capitalization threshold of $1,500. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful life:

Description	Estimated Life
Equipment	5 - 10 years
Vehicles	7 years

G. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, which includes Economic Disadvantaged Funding and Limited English Proficiency Funding, which are reflected under "state foundation" 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Non-exchange transactions, in which the Academy 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

H. Operating Revenues and Expenses

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

I. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

J. Use of Estimates

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

K. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Pensions

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

NOTE 3 - ACCOUNTABILITY

A. Change in Accounting Principles

For fiscal year 2017, the Academy has implemented GASB Statement No. 77, “Tax Abatement Disclosures”, GASB Statement No. 78, “Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans”, GASB Statement No. 80, “Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14” and GASB Statement No. 82, “Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73”.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. These disclosures were incorporated in the Academy’s fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

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

NOTE 3 - ACCOUNTABILITY - (Continued)

B. Restatement of Net Position

In prior years, the Superintendent/founder deferred portions of her salary to future years. This deferral of salary is recorded as a prior period adjustment in the amount of $(123,239) which resulted in a restated deficit net position of $1,156,872 to $1,280,111 at July 1, 2016.

NOTE 4 - DEPOSITS

At June 30, 2017, the carrying amount of all Academy deposits was $298,466. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, the Academy’s bank balance was $308,506, of this $250,000 was covered by the Federal Deposit Insurance Corporation (FDIC). $58,506 of the Academy’s bank balance was exposed to custodial credit risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the Academy’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

The Academy had no investments.

NOTE 5 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Academy contracted with Citizens Insurance Company for general liability and property insurance and professional liability, and auto.

Coverage is as follows:

Commercial General Liability per occurrence	$ 1,000,000
Commercial General Liability aggregate	2,000,000
Fire Damage Limit, Any One Fire	500,000
Personal and Advertising Injury Limit	1,000,000
Property Damage	100,000
School and Educators Liability	3,000,000
Business Automobile	1,000,000

Settled claims have not yet exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

NOTE 5 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

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

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

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

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

Plan Description - Academy Employees Retirement System (SERS)

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

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was $16,241 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

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

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

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

The Academy’s contractually required contribution to STRS was $46,428 for fiscal year 2017. Of this amount, $7,296 is reported as pension and postemployment benefits payable.

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.00183500%	0.00235634%	
Proportion of the net pension liability current measurement date	0.00181770%	0.00229299%	
Change in proportionate share	-0.00001730%	-0.00006335%	
Proportionate share of the net pension liability	$ 133,039	$ 767,533	$ 900,572
Pension expense	13,412	92,741	106,153

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

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 1,793	$ 31,012	$ 32,805
Net difference between projected and actual earnings on pension plan investments	10,975	63,726	74,701
Changes of assumptions	8,881	-	8,881
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	-	77,390	77,390
Academy contributions subsequent to the measurement date	16,241	46,428	62,669
Total deferred outflows of resources	$ 37,890	$ 218,556	$ 256,446
Deferred inflows of resources			
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	916	14,637	15,553
Total deferred inflows of resources	$ 916	$ 14,637	$ 15,553

$62,669 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS		STRS		Total	
Fiscal Year Ending June 30:						
2018	$	5,062	$	37,138	$	42,200
2019		5,054		37,139		42,194
2020		7,462		61,590		69,052
2021		3,155		21,624		24,779
Total	$	20,734	$	157,491	$	178,224

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

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

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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. A discount rate of 7.75 percent was used in the prior period measurement. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	$ 176,135	$ 133,039	$ 96,965

Actuarial Assumptions - STRS

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

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate **-** The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$ 1,019,989	$ 767,533	$ 554,571

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

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. Academy Employees Retirement System

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

NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the Academy's surcharge obligation was $1,972.

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $1,972, $0, and $453, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Academy did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 8 - OPERATING LEASE

The Roman Catholic Diocese of Toledo in America entered into a lease agreement with the North Central Ohio Educational Service Center and the Academy for a term beginning June 1, 2016 through September 30, 2017. This agreement is, in substance, a rental agreement (operating lease) and is classified as purchased services in the financial statements. The Lessees obligation is $300 per month for June-September 2016 and $3,000 per month for the remainder of the lease. The lease has two successive options to renew for an additional three years, in the renewal, the minimum rent shall be based on 6 percent of the Ohio per pupil Foundation payment payed by the State of Ohio to the Academy.

NOTE 9 - CAPITAL LEASE - LESSEE DISCLOSURE

In a prior fiscal year, the Academy entered into a capital lease for copier equipment. Principal payments made totaled $1,614 for fiscal year 2017.

The following is a schedule of the future minimum lease payments required under the capital lease and present value of the minimum lease payments as of June 30, 2017:

Fiscal Year Ending June 30,	Payments
2018	$ 281
Total minimum lease payments	281
Less: amount representing interest	(2)
Total	$ 279

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Due in One Year
Capital Lease Obligation	$ 1,893	$ -	$ (1,614)	$ 279	$ 279
Net pension liability	755,930	144,642	-	900,572	-
Other Long-Term Payables	168,965	83,003	-	251,968	251,968
Notes Payable:					
Ann Harris Superintendent/Founder	16,764	-	-	16,764	16,764
Center for Educational Excellence, Inc.	5,949	-	-	5,949	5,949
Learners for Life Child Development, Inc.	5,099	1,311	-	6,410	6,410
Allison Cox Co-Founder	15	-	-	15	15
Total Notes Payable	27,827	1,311	-	29,138	29,138
Total Long-Term Obligations	$ 954,615	$ 228,956	$ (1,614)	$1,181,957	$ 281,385

See Note 6 for detail on the net pension liability.

See Note 9 for detail on the capital lease obligation.

Other Long-Term Liabilities - This amount relates to delayed payment of vendor invoices.

The Note Payable to Ann Harris is for start up costs.

The Note Payable to the Center for Educational Excellence, Inc., the Learners for Life Child Development, Inc. and Allison Cox are described in Note 14 - Related Parties.

NOTE 11 - CAPITAL ASSETS

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

	Balance 6/30/16	Additions	Deductions	Balance 06/30/17
Capital assets, being depreciated:				
Equipment	$ 34,001	$ -	$ -	$ 34,001
Vehicles	14,650	-	-	14,650
Total capital assets being depreciated	48,651	-	-	48,651
Less: accumulated depreciation				
Equipment	(23,800)	(6,800)	-	(30,600)
Vehicles	(7,326)	(2,093)	-	(9,419)
Total accumulated depreciation	(31,126)	(8,893)	-	(40,019)
Capital assets, net	$ 17,525	$ (8,893)	$ -	$ 8,632

NOTE 12 - CONTRACTS

Sponsor Contract

The Academy entered into a sponsorship contract commencing on July 1, 2012 and ending on June 30, 2017 with North Central Ohio Educational Service Center.

The Sponsor shall carry out the responsibilities established by law, including:

- Provide technical assistance and monitor the Academy's compliance with all laws applicable to the Academy and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Report on at least an annual basis the results of the evaluation conducted to the Ohio Department of Education and to the parents/guardians of students enrolled in the Academy;
- Take steps to intervene in the Academy's operation to correct problems in the Academy's overall performance, declare the Academy to be on probationary status pursuant to Ohio Revised Code Section 3314.073, suspend operation of the Academy pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew the contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Develop a plan of action to be undertaken if the Academy experiences financial difficulties or closes prior to the end of the year;
- Evaluate the performance of the Academy according to standards set forth in the Assessment and Accountability Plan;
- Support the Academy's establishment and operation as determined to be appropriate by the Sponsor at the Sponsor's sole discretion;
- Notify the Academy within five business days of complaints or correspondence from the Ohio Department of Education concerning the Academy; and,

NOTE 12 - CONTRACTS - (Continued)

- Comply with the procedures for resolving disputes or differences of opinion between it and the Academy as set forth in the Governance and Administrative Plan.

The sponsor contract with North Central Ohio Educational Service Center was amended and renewed during fiscal year 2017. The term of this contact began on July 1, 2017 and ends on June 30, 2019.

NOTE 13 - PURCHASED SERVICES

For fiscal year 2017, purchased services expenses were payments for services rendered by various vendors, as follows:

Property services	$ 57,500
Travel/meetings	1,272
Communications	3,330
Utilities	24,208
Other	71,625
Total	$ 157,935

NOTE 14 - RELATED PARTIES

The Center for Educational Excellence Inc. (CEE) in which Ann Harris, the Superintendent/founder of the Academy is an Official. The CEE has been awarded a Port Authority grant and has paid $29,138 of the Academy's Development expenses as well as other expenses, in which $5,949 is Payable to the CEE by the Academy.

Learners for Life Child Development Center Inc. in which Ann Harris, the Superintendent/founder of the Academy is an Official, has paid expenses on behalf of the Academy, in which $6,410 is Payable to Learners for Life Child Development Center by the Academy.

Allison Cox, a Co-founder of the Academy has paid for expenses on behalf of the Academy, in which $15 is Payable to Allison Cox by the Academy.

NOTE 15 - CONTINGENCIES

A. Grants

Amounts grantor agencies pay to the Academy are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

B. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 15 - CONTINGENCIES

C. State Foundation Funding

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

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

As of the date of this report, additional ODE adjustments for fiscal year 2017 have been finalized. The conclusion of the fiscal year 2017 review resulted in the Academy owing $13,694 to the Ohio Department of Education. This amount has been reported as an intergovernmental payable in the accompanying financial statements.

NOTE 16 - MANAGEMENT PLAN

The Academy had an increase of $357,491 in net position, but a deficit net position of $922,620 at June 30, 2017. The deficit net position was primarily a result of reporting the net pension liability and related deferred outflows of resources and deferred inflows of resources in accordance with GASB Statements No. 68 and 71, as described in Note 6. In addition, the Academy has outstanding other long-term payables of $251,968 which management has plans to pay down a majority of in fiscal year 2018. In addition, Management intends to continue to increase Academy enrollment and improve operating efficiencies.

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENT

The Academy entered into a capital lease with Cardinal Bus Sales and Service for the lease of a bus. The lease has a sixty-month term and payments of $1,624 per month. The bus was received in August of 2017.

NOTE 18 - JOINTY GOVERNED ORGANIZATIONS

<u>Northern Ohio Educational Computer Association</u>
The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among forty-one school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating school district and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two assembly members from each county in which participating school districts are limited to its representation on the Board. Financial information can be obtained by contacting NOECA, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

REQUIRED SUPPLEMENTARY INFORMATION

ACADEMY FOR EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS (1)

	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.00181770%	0.00183500%	0.00184200%	0.00184200%
Academy's proportionate share of the net pension liability	$ 133,039	$ 104,707	$ 93,223	$ 109,538
Academy's covered payroll	$ 56,450	$ 55,243	$ 53,521	$ 48,526
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	235.68%	189.54%	174.18%	225.73%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(1) Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

ACADEMY FOR EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS (1)

	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.00229299%	0.00235634%	0.00190518%	0.00190518%
Academy's proportionate share of the net pension liability	$ 767,533	$ 651,223	$ 463,406	$ 552,006
Academy's covered payroll	$ 238,921	$ 245,843	$ 194,654	$ 206,300
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	321.25%	264.89%	238.07%	267.57%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(1) Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

ACADEMY FOR EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2017	2016	2015	2014	2013
Contractually required contribution	$ 16,241	$ 7,903	$ 7,281	$ 7,418	$ 6,716
Contributions in relation to the contractually required contribution	(16,241)	(7,903)	(7,281)	(7,418)	(6,716)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Academy's covered payroll	$ 116,007	$ 56,450	$ 55,243	$ 53,521	$ 48,526
Contributions as a percentage of covered payroll	14.00%	14.00%	13.18%	13.86%	13.84%

Note: The Academy's first year of operation was 2013; therefore information prior to 2013 is not applicable

ACADEMY FOR EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2017	2016	2015	2014	2013
Contractually required contribution	$ 46,428	$ 33,449	$ 34,418	$ 25,305	$ 26,819
Contributions in relation to the contractually required contribution	(46,428)	(33,449)	(34,418)	(25,305)	(26,819)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Academy's covered payroll	$ 331,629	$ 238,921	$ 245,843	$ 194,654	$ 206,300
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	13.00%	13.00%

Note: The Academy's first year of operation was 2013; therefore information prior to 2013 is not applicable

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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

Julian & Grube, Inc.
Serving Ohio Local Governments
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Academy of Educational Excellence
Lucas County
728 Parkside Boulevard
Toledo, Ohio 43607

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Academy of Educational Excellence, Lucas County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy of Educational Excellence's basic financial statements and have issued our report thereon dated January 26, 2018, wherein we noted the Academy of Educational Excellence as described in Note 3 had a prior period restatement to properly state accrued wages and net position. We also noted the Academy experienced a net position deficit for the fiscal year ended June 30, 2017 as described in Note 16.

Internal Control Over Financial Reporting

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

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

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

Board of Directors
Academy of Educational Excellence

Compliance and Other Matters

As part of reasonably assuring whether the Academy of Educational Excellence's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy of Educational Excellence's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy of Educational Excellence's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Julian & Grube, Inc.

Julian & Grube, Inc.
January 26, 2018

ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2017-001

Significant Deficiency - Financial Statement Presentation

Accurate financial reporting is required in order to provide management and other stakeholders with objective and timely information to enable well-informed decisions. Accounting principles generally accepted in the United States of America (GAAP) requires revenues and expenses be recognized in the period in which the item was earned or incurred.

In prior years, the Superintendent/Founder elected to defer part of her salary to future years. The full amount was not accrued in the financial statements until the current year. At prior fiscal year-end (June 30, 2016), accrued wages were understated by $123,239. The audited financial statements have been adjusted for the misstatement.

We recommend the Academy enhance internal controls over GAAP financial reporting, including steps to analyze the conversion data provided by the accounting firm consulted for the conversion. It is further recommended the Academy consult with their auditors, the Auditor of State and/or consult with an accounting firm while reporting unusual or infrequent items, or when an accounting estimate is in question, to help ensure accurate financial reporting.

Client Response: We did not receive a response from Officials to this finding.

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Dave Yost • Auditor of State

ACADEMY FOR EDUCATIONAL EXCELLENCE

LUCAS 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
MARCH 22, 2018