AKROS MIDDLE SCHOOL
SUMMIT COUNTY, OHIO

AUDIT REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2017 AND JUNE 30, 2016

James G. Zupka, CPA, Inc.

Certified Public Accountants

Board of Trustees
Akros Middle School
265 Park Street
Akron, Ohio 44304

We have reviewed the *Independent Auditor's Report* of the Akros Middle School, Summit County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2015 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 Akros Middle School is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

May 10, 2018

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AKROS MIDDLE SCHOOL
SUMMIT COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board
Akros Middle School
Akron, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Akros Middle School, Summit County, Ohio, (the School) as of and for the years ended June 30, 2017 and June 30, 2016, 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 Akros Middle School as of June 30, 2017 and June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as 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 February 26, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

James G. Zupka, CPA, Inc.

James G. Zupka, CPA, Inc.
Certified Public Accountants

February 26, 2018

Akros Middle School
Management's Discussion and Analysis
June 30, 2017 and 2016

The discussion and analysis of the Akros Middle School's (the School) financial performance provides an overall review of the School's financial activities for the years ended June 30, 2017 and 2016. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

Financial Highlights

- In total, net position decreased by ($131,241) and ($9,934) which represents a (7.6) % and (.6) % decrease from 2016 and 2015, respectively. The decrease in net position during 2017 is mainly attributed to higher total operating expenses and slightly lower revenue as compared to the same period in 2016. The decrease in net position during 2016 is mainly attributed to higher total operating expenses, which was slightly offset by slightly higher revenue as compared to the same period in 2015.
- Total assets decreased by ($64,543) and ($23,905) which represents a (49.5)% and (15.5)% decrease from 2016 and 2015. The decrease of total assets as of June 30, 2017, as compared to prior year is primarily due to a decrease in cash and cash equivalents and net property and equipment due to accumulated depreciation during 2017. The decrease of total assets as of June 30, 2016 as compared to prior year is primarily due to a decrease in cash and cash equivalents and net property and equipment due to accumulated depreciation during 2016.
- Total deferred outflows of resources increased by $152,922 and $153,361 which represents a 58.1% and 139.8% increase from 2016 and 2015, respectively.
- Total liabilities increased by $244,630 and $284,538 which represents a 13.0% and 17.8% increase from 2016 and 2015, respectively. The increase in total liabilities as of June 30, 2017 is mainly due to increase in net pension liability compared to prior year. The increase in total liabilities as of June 30, 2016 is mainly due to increase in net pension liability, which was slightly offset by decrease in accounts payable, accrued expense and payments of note payable as compared to prior year.
- Total deferred inflows of resources decreased by ($25,010) and ($145,148) which represents a (22.0)% and (56.1)% decrease from 2016 and 2015, respectively.

During 2015, the School adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law.

The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows. As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Using this Financial Report

This report consists of three parts, the Management's Discussion and Analysis ("MD&A"), the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The School uses the enterprise presentation for all of its activities.

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2017 and 2016. The statements include assets, deferred outflows of resources, liabilities, deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the years, regardless of when the cash is received or paid.

The table below provides a summary of the School's net position for fiscal years 2017 and 2016.

Statement of Net Position

	2017	2016
ASSETS		
Current assets	$ 13,114	$ 71,178
Capital assets, net	52,756	59,235
TOTAL ASSETS	65,870	130,413
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	415,951	263,029
LIABILITIES		
Current liabilities	90,587	79,952
Long-term liabilities	2,039,287	1,805,292
TOTAL LIABILITIES	2,129,874	1,885,244
DEFERRED INFLOWS OF RESOURCES		
Pensions	88,800	113,810
NET POSITION		
Net Investment in capital assets	52,756	59,235
Unrestricted	(1,789,609)	(1,664,847)
TOTAL NET POSITION	$ (1,736,853)	$ (1,605,612)

Statements of Revenues, Expenses and Changes in Net Position

The table that follows shows the change in net position for fiscal years 2017 and 2016, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Change in Net Position

	2017	2016
OPERATING REVENUES		
Foundation payments	$ 1,052,341	$ 1,111,635
Donations	35,000	-
Other	6,967	7,047
TOTAL OPERATING REVENUES	1,094,308	1,118,682
OPERATING EXPENSES		
Salaries	738,185	769,542
Employee benefits	227,222	123,630
Rent	142,606	142,606
Materials and supplies	154,515	127,031
Purchased services	200,482	190,771
Utilities	29,803	27,335
Depreciation	6,479	10,245
Other operating expenses	3,196	5,814
TOTAL OPERATING EXPENSES	1,502,488	1,396,974
NON-OPERATING REVENUES (EXPENSES)		
State and federal grants	279,420	272,408
Investment income	13	26
Other	1,274	-
Interest expense	(3,770)	(4,076)
	276,937	268,357
CHANGE IN NET POSITION	$ (131,241)	$ (9,934)

Budgeting Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the community school's contract with its Sponsor. The contract between the School and the sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the School.

Capital Assets

At the end of fiscal years 2017 and 2016, the School had $52,756 and $59,235, respectively, invested in computers and software, furniture and equipment, land improvements and leasehold improvements (net of depreciation). The table below shows the Capital Assets by category.

	June 30, 2016	Additions	Deletions	June 30, 2017
Capital assets, being depreciated:				
Land improvements	$ 3,062	$ -	$ -	$ 3,062
Furniture and equipment	82,160	-	-	82,160
Leasehold improvements	74,595	-	-	74,595
Total capital assets, being depreciated	159,817	-	-	159,817
Less accumulated depreciation:				
Land improvements	(906)	(153)	-	(1,059)
Furniture and equipment	(79,565)	(2,596)	-	(82,161)
Leasehold improvements	(20,112)	(3,730)	-	(23,842)
Total accumulated depreciation	(100,583)	(16,479)	-	(107,062)
Total capital assets, net	$ 59,235	$ (6,479)	$ -	$ 52,756

For more information on capital assets, see Note B in the Notes to the Basic Financial Statements.

Current Financial Issues

The School received revenue for 123 and 130 students in 2017 and 2016 and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged $8,215 and $8,551, respectively in fiscal years 2017 and 2016 and it is expected to remain the same in State Basic Aid planned in fiscal year 2018. The School anticipates receiving federal title grants in future school years.

The School contracted with the St. Aloysius Orphanage as its sponsor. State law allows sponsors to assess the schools up to 3% of State revenues as an oversight fee, a cost that was not incurred through the sponsorship by ODE. St. Aloysius Orphanage charged 3% of State Aid to be paid by the School for fiscal years 2017 and 2016.

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 Dave Dudas, Board Member for the Akros Middle School, 265 Park Street, Akron, Ohio 44304 or e-mail at dave@edge4kids.org.

Akros Middle School
Statements of Net Position

	June 30, 2017	June 30, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,309	$ 68,943
Accounts receivable, Other	-	1,101
State and federal grants receivable	11,805	1,134
	13,114	71,178
Property and equipment		
Land improvements	3,062	3,062
Leasehold improvements	74,595	74,595
Furniture and equipment	77,767	77,767
Computer equipment	4,394	4,394
	159,818	159,818
Less accumulated depreciation	(107,062)	(100,583)
Property and equipment, net	52,756	59,235
	65,870	130,413
Deferred outflows of resources	415,951	263,029
LIABILITIES		
Current liabilities		
Accounts payable	2,632	2,286
Accrued wages and benefits	53,340	54,810
Due to related party	25,249	13,807
Current portion of long-term debt	9,366	9,049
	90,587	79,952
Long-term liabilities		
Net pension liability	1,944,148	1,700,787
Note payable, net of current maturities	95,139	104,505
	2,039,287	1,805,292
	2,129,874	1,885,244
Deferred inflows of resources	88,800	113,810
NET POSITION		
Investment in capital assets	52,756	59,235
Unrestricted net position	(1,789,609)	(1,664,847)
	$ (1,736,853)	$ (1,605,612)

Akros Middle School
Statements of Revenues, Expenses, and Changes in Net Position

	For the Years Ended June 30,			
OPERATING REVENUES	2017		2016	
Foundation payments	$ 1,052,341	96.3%	$ 1,111,635	99.4%
Donations	35,000	3.2%	-	0.0%
Other	6,969	0.6%	7,047	0.6%
	1,094,310	100.0%	1,118,682	100.0%
Operating expenses				
Salaries	738,185	67.5%	769,542	68.8%
Employee benefits	227,222	20.8%	123,630	11.1%
Materials and supplies	154,515	14.1%	127,031	11.4%
Purchased services	200,482	18.3%	190,771	17.1%
Rent	142,606	13.0%	142,606	12.7%
Utilities	29,803	2.7%	27,335	2.4%
Depreciation	6,479	0.6%	10,245	0.9%
Other operating expenses	3,196	0.3%	5,814	0.5%
	1,502,488	137.3%	1,396,974	124.9%
Operating loss	(408,178)	-38.8%	(278,292)	-25.0%
Non-operating revenues (expenses)				
State and federal grants	279,420	26.6%	272,408	24.5%
Investment income	13	0.0%	26	0.0%
Other income	1,274	0.1%	-	0.0%
Interest expense	(3,770)	-0.4%	(4,076)	-0.4%
Total other income	276,937	26.3%	268,358	24.1%
Change in net position	(131,241)	-12.5%	(9,934)	-0.9%
Net position at beginning of year	(1,605,612)	-152.6%	(1,595,678)	
Net position at end of year	$ (1,736,853)	-165.0%	$ (1,605,612)	

Akros Middle School
Statements of Cash Flows

	For the Years Ended June 30, 2017	2016
Cash flows from operating activities:		
Cash received from State of Ohio	$ 1,042,771	$ 1,110,501
Cash received from cash donations	35,000	-
Cash payment to employees for services and benefits	(901,448)	(899,079)
Cash payments to suppliers for goods and services	(515,618)	(487,791)
Cash payments for other operating expenses	(3,196)	(5,814)
Other operating revenues	6,969	7,047
Net cash used in operating activities	(335,522)	(275,136)
Cash flows from noncapital financing activities:		
State and federal grants	279,420	272,408
Investment income	13	26
Other income	1,274	-
Interest expense	(3,770)	(4,076)
Net cash provided by noncapital financing activities	276,937	268,358
Cash flows from capital and related financing activities:		
Cash payments for debt	(9,049)	(8,743)
Net decrease in cash and cash equivalents	(67,634)	(15,521)
Cash and cash equivalents at beginning of year	68,943	84,464
Cash and cash equivalents at end of year	$ 1,309	$ 68,943
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (408,178)	$ (278,292)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	6,479	10,245
(Increase) decrease in assets: Accounts receivable	(9,570)	(2,235)
Deposits	-	374
Deferred outflows of resources	(152,922)	(153,361)
Increase (decrease) in liabilities: Accounts payable	346	(12,294)
Accrued wages and benefits	(1,470)	(9,093)
Due to related party	11,442	12,504
Net pension liability	243,361	302,164
Deferred inflows of resources	(25,010)	(145,148)
	72,656	3,156
Net cash used in operating activities	$ (335,522)	$ (275,136)

See accompanying notes to the financial statements

Akros Middle School
Notes to Financial Statements
June 30, 2017 And 2016

A. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Akros Middle School (the School) is a not-for-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to educate students in grades six through eight. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

On June 30, 2017, the School renewed the contract with St. Aloysius (Sponsor) for a term of one year and the contract will automatically renew for one-year terms through June 30, 2020 due to the status of the sponsorship agreement between the Ohio Department of Education (ODE) and the Sponsor. During this agreement, if the Sponsor is granted a seven-year term with the ODE, the term will be renegotiated.

The School operates under the direction of a self-appointing, five-member Board of Directors. The 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 controls the School's one instructional/support facility staffed by 2 non-certified and 8 certified full-time teaching personnel and 7 certified teaching personnel shared 60% with Edge Learning, Inc. (a related party) who provides services to approximately 125 students.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The following are the most significant of the School's accounting policies.

***Basis of Presentation* -** Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

***Measurement Focus and Basis of Accounting* -** The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

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

***Budgetary Process* -** Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with the sponsor. The contract between the School and the sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the School.

***Cash and cash equivalents* -** Cash held by the School is reflected as "cash and cash equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

***Property and Equipment* -** Property and equipment are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School maintains a capitalization threshold of $5,000, while repairs are charged to expense. The School does not possess any infrastructure and does not capitalize interest costs.

Depreciation of computer equipment, furniture and equipment, land improvements and leasehold improvements are computed using the straight-line method based on estimated useful lives of 5 to 20 years. Depreciation expense for the years ended June 30, 2017 and 2016 was $6,479 and $10,245, respectively.

***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. The deferred outflows of resources related to pension are explained in Note F.

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. The deferred inflows of resources related to pension are explained in Note F.

***Pensions* -** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

***Purchased Services* -** The School purchased services in the amount of $200,482 and $190,771, respectively for the years ended June 30, 2017 and 2016. This includes the following at June 30:

	2017	2016
Busing and transportation fees	$ 4,953	$ 1,670
School psychologist	2,820	-
Professional development	16,323	11,240
Professional and legal	36,727	42,357
Maintenance services	25,884	35,005
Instructional purchased services	16,910	331
Other general services	96,865	100,168
	$ 200,482	$ 190,771

***Compensated Absences* -** Each employee of the School is entitled to five paid sick days each year. Days not used during the year are not carried over to the following year and the School does not pay employees for unused sick days. Employees of the School do not earn vacation.

***Net Position* -** Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling of legislation adopted by the School or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

***Intergovernmental Revenue* -** The School currently participates in the State Foundation Program, Public Charter School Program, the State Poverty Aid Program, the State Meals Program, the EMIS Subsidy Program, the Food Service Federal Grant Programs, and the IDEA Part B Program, Title I and Title II-A. Revenues received from these programs are recognized as non-operating revenues in the accompanying financial statements, with the exception of the State Foundation Program. Grants and entitlements 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 permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided on a reimbursement basis.

***Accrued Liabilities* -** The School has recognized certain expenses due but unpaid as of June 30, 2017 and 2016. These expenses are reported as accrued liabilities in the accompanying financial statements.

***Use of Estimates* -** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

***Income Taxes* -** The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provisions for federal income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for years ended June 30, 2017 and 2016. The School believes that it has appropriate support for the tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The School’s federal Return of Organization Exempt from Income Tax (Form 990) for 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after it was filed.

***Reclassification* –** Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. Such reclassifications had no effect on previously reported net income.

C. DEPOSITS AND INVESTMENTS

Deposits **-** At June 30, 2017 and 2016, the carrying amounts of the School's deposits were $1,309 and $68,943, and the bank balances were $15,558 and $89,386, respectively. The bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. There were no balances in excess of the insured amounts as of June 30, 2017 and 2016.

Custodial Credit Risk **-** Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal years end June 30, 2017 and 2016; 100% of the School's bank balance was insured and collateralized.

D. STATE AND FEDERAL GRANTS RECEIVABLE

All state and federal grants are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

E. RISK MANAGEMENT

Property and Liability **-** The School 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. For fiscal years 2017 and 2016, the School contracted with Philadelphia Indemnity Insurance Companies for property and general liability insurance with a $3,000,000 aggregate limit. Settled claims did not exceed insurance coverage in any of the past years.

Workers' Compensation **-** The School pays the State Workers' 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.

Employee Medical, Dental, and Vision Benefits **-** The School has contracted with a private carrier to provide its full-time salaried employees medical/surgical benefits and life insurance. For fiscal years 2017 and 2016, the School paid premiums, up to $711 and $802 per month per employee, for this coverage.

F. 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.

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

School Employees Retirement System

Plan Description - The School's non-teaching employees participate in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853. It is also posted on SERS' website at www.ohsers.org, under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2017 and 2016, 13.25% and 13.26%, respectively of annual covered salary was the portion used to fund pension obligations.

The remaining 0.75% and 0.74% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds in 2017 and 2016, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2017 and 2016, was $19,080 and $14,201, respectively; 100% has been contributed for fiscal year 2017 and 2016.

State Teachers Retirement System of Ohio

Plan Description - The School licensed teachers and other faculty members participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by STRS. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

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

The Combined Plan offers Plan 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 dies of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14% on July 1, 2016. For the fiscal years ended June 30, 2017 and 2016, plan members were required to contribute 14% and 13%, respectively of their annual covered salaries. The School was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2017 and 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2017 and 2016 was $73,497 and $85,160, 100% has been contributed for fiscal years 2017 and 2016.

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 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities.

At June 30, 2017 and 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	School's fiscal year end: June 30, 2017 Measurement date: June 30, 2016		
	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 3,967	$ 66,670	$ 70,637
Changes of assumptions	19,631	-	19,631
Net difference between projected and actual earnings on pension plan investments	24,257	137,002	161,259
Changes in proportion and differences	29,467	42,380	71,847
School District contributions subsequent to the measurement date	19,080	73,497	92,577
Total Deferred Outflows of Resources	$ 96,402	$ 319,549	$ 415,951

	School's fiscal year end: June 30, 2017 Measurement date: June 30, 2016		
	SERS	STRS	Total
Deferred Inflows of Resources			
Changes in proportion and differences	-	88,800	88,800
Total Deferred Inflows of Resources	$ -	$ 88,800	$ 88,800
Proportion of the Net Pension Liability Prior Measurement Date	0.0038444%	0.00536027%	
Proportion of the Net Pension Liability Current Measurement Date	0.0040178%	0.00492959%	
Change in Proportionate Share	0.0001734%	-0.0004307%	
Proportionate Share of the Net Pension Liability	$ 294,066	$ 1,650,082	$ 1,944,148
Pension expense	$ 43,917	$ 114,067	$ 157,984

	School's fiscal year end: June 30, 2016 Measurement date: June 30, 2015		
	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 3,533	$ 67,534	$ 71,067
Changes in proportion and differences	36,072	56,507	92,579
School District contributions subsequent to the measurement date	14,154	85,229	99,383
Total Deferred Outflows of Resources	$ 53,759	$ 209,270	$ 263,029
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$ 7,268	$ 106,542	$ 113,810
Total Deferred Inflows of Resources	$ 7,268	$ 106,542	$ 113,810
Proportionate Share of the Net Pension Liability	$ 219,350	$ 1,481,421	$ 1,700,771
Proportion of the Net Pension Liability	0.003844%	0.00536027%	
Total	$ 219,350	$ 1,481,421	$ 1,700,771
Pension expense	$ 25,429	$ 81,492	$ 106,921

As of June 30, 2017 and 2016, deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

School's fiscal year ended June 30, 2017

	SERS	STRS	Total
2018	$ 25,308	$ 24,175	$ 49,483
2019	25,293	24,174	49,467
2020	19,750	76,745	96,495
2021	6,971	32,158	39,129
	$ 77,322	$ 157,252	$ 234,574

School's fiscal year ended June 30, 2016

	SERS	STRS	Total
2017	$ (138,330)	$ (9,916)	$ (148,246)
2018	(138,330)	(9,916)	(148,246)
2019	(190,533)	(9,917)	(200,450)
2020	115,774	47,247	163,021
	$ (351,419)	$ 17,498	$ (333,921)

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:

Inflation	3.00%
Future Salary Increases, including inflation	3.50% to 18.2%
Cost of Living Increases (COLA) or "Ad Hoc" COLA	3.00%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions Experience Study Date	5 year period ended June 30, 2015
Mortality Assumptions	Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both men and women.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Inflation	3.25%
Future Salary Increases, including inflation	4.00% to 22%
Cost of Living Increases (COLA) or "Ad Hoc" COLA	3.00%
Investment Rate of Return	7.75% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions Experience Study Date	5 year period ended June 30, 2010
Mortality Assumptions	For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after.

The most recent experience study was completed June 30, 2015.

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 for June 30, 2016 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.

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	10.00	5.00
Multi-Asset Strategies	15.00	3.00
Total	100.00 %	

The long-term expected nominal rate of return for June 30, 2015 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate

The total pension liability was calculated using the discount rate of 7.50% and 7.75% for June 30, 2016 and 2015, respectively. 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% and 7.75%). 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 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% and 7.75% for June 30, 2016 and 2015, respectively, 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 (6.5% and 6.75%), or one percentage point higher (8.50% and 8.75%) than the current rate.

	1 % Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
The Academy's proportionate share of the net pension liability	$ 389,325	$ 294,066	$ 214,330

	1 % Decrease (6.75%)	Current 6/30/16 Discount Rate (7.75%)	1% Increase (8.50%)
The Academy's proportionate share of the net pension liability	$ 304,181	$ 219,365	$ 147,944

Actuarial Assumptions – STRS

The total pension liability in the July 1, 2017 and 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	12.25% at age 20 to 2.75% at age 70
Investment rate of return	7.75%, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1, 2013 or later, 2% COLA commences on the fifth anniversary of the 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, 2017 and 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012

STRS Ohio's investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50% and 7.75% as of June 30, 2016 and 2015. 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 and 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.50% and 7.75% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016 and 2015.

Sensitivity of the Academy'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 calculated using the discount rate of 7.45% and 7.75% for June 30, 2016 and 2015, respectively, 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% and 6.75%), or one percentage point higher (8.45% and 8.75%) than the current rate.

	June 30, 2016		
	1 % Decrease (6.45%)	Discount Rate (7.45%)	1% Increase (8.45%)
The Academy's proportionate share of the net pension liability	$ 1,678,638	$ 1,171,035	$ 743,455

	June 30, 2015		
	1 % Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.5%)
The Academy's proportionate share of the net pension liability	$ 2,384,404	$ 1,794,244	$ 1,296,409

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2017 and 2016, there were no members of the governing board that elected Social Security.

School Employees Retirement System

Plan Description – The School participates in two costs sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS at 300 East Broad Street, Suite 100, Columbus, OH 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401(h). For 2017 and 2016, 0% of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2017 and 2016, this amount was $23,500 and $23,000, respectively. During the fiscal year ending June 30, 2017 and 2016 the School paid no surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal year ended June 30, 2017 and 2016 was $0; 100% has been contributed for fiscal years 2017 and 2016.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2017 and 2016, the actuarially required allocation was 0.75%, and 0.74%, respectively of covered payroll. The School's contribution for Medicare Part B for the fiscal years ended June 30, 2017 and 2016 was $1,022 and $771, respectively; 100% has been contributed for fiscal years 2017 and 2016.

State Teachers Retirement System

Plan Description – The School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may 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 and 2016, STRS Ohio allocated employer contributions equal to 0% of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2017 and 2016 was $0; 100% has been contributed for fiscal years 2017 and 2016.

G. CONTINGENCIES

***Grants* -** The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2017 and 2016.

***Enrollment FTE* -** The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the Schools. These reviews are conducted to ensure the Schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. For fiscal years 2017 and 2016, these reviews resulted in no adjustments. Amounts are reflected as State and Federal grants receivable on the School's statement of net position and will be included in the School's future foundation settlements.

***Litigation* -** The School is party to legal proceedings. The School is of the opinion that the ultimate disposition of claims will not have a material effect on the financial condition of the School.

H. LONG-TERM LIABILITIES

Long-term liabilities consist of the following at June 30, 2017:

Note Payable, Charter Development Foundation, Inc.: to cover start up payroll in FY2011, payable in monthly installments of $1,068, including interest at 3.5% per annum. Final payment is due January 1, 2027.	$ 104,505
Less current maturities	(9,366)
	$ 95,139

Aggregate maturities of long-term debt at June 30, 2017, are as follows:

2018	$ 9,366
2019	9,694
2020	10,033
2021	10,384
Thereafter	65,028
	$ 104,505

I. RENTAL AGREEMENT

As of July 1, 2015, the School entered into a three-year lease with Charter Development Foundation, Inc. (a related party) for the use of classrooms and office space. Annual rent for the use of these facilities is $142,606 payable in monthly installments of $11,884. The School is responsible for paying all taxes, utilities and maintenance costs. Total rent expense was $142,606 for the years ended June 30, 2017 and 2016.

Future minimum payments as of June 30, 2017 are as follows:

2017	$ 142,606
2018	142,606
	$ 285,212

J. RELATED PARTY TRANSACTIONS

The School has a lease with Charter Development Foundation, Inc., a not-for-profit organization established and managed by the developer of the school (See Note I). Charter Development Foundation, Inc. donated $35,000 to the School in 2017.

The School had expenses paid by a related party, Edge Learning, Inc. during fiscal years ended June 30, 2017 and 2016 resulting in a related party payable of $25,249 for 2017 and $13,807 for 2016.

K. SUBSEQUENT EVENTS

The School has evaluated subsequent events through February 26, 2018, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Akros Middle School

Required Supplementary Information

Schedule of the School District's Proportionate Share of the Net Pension Liability

School Teachers Retirement System of Ohio

Last Four Fiscal Years (1)

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.00492959%	0.00536027%	0.00507117%	0.00507117%
School District's Proportionate Share of the Net Pension Liability	$ 1,650,082	$ 1,481,422	$ 1,233,484	$ 1,469,318
School District's Covered Payroll	$ 608,779	$ 481,264	$ 557,992	$ 338,146
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	271.05%	307.82%	221.06%	434.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School District's measurement date which is the prior fiscal period end.

Akros Middle School

Required Supplementary Information

Schedule of the School District's Proportionate Share of the Net Pension Liability

School Employees Retirement System of Ohio

Last Four Fiscal Years (1)

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.0040178%	0.0038444%	0.003263%	0.003263%
School District's Proportionate Share of the Net Pension Liability	$ 294,066	$ 219,350	$ 165,139	$ 194,040
School District's Covered Payroll	$ 101,100	$ 219,674	$ 95,772	$ 90,925
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	290.87%	99.85%	172.43%	213.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School District's measurement date which is the prior fiscal period end.

Akros Middle School
Required Supplementary Information
Schedule of School District Contributions
School Employees Retirement System of Ohio
Last Seven Fiscal Years (1)

	2017	2016	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 73,497	$ 85,229	$ 67,377	$ 72,539	$ 43,959	$ 80,188	$ 50,420
Contributions in Relation to the Contractually Required Contribution	(73,497)	(85,229)	(67,377)	(72,539)	(43,959)	(80,188)	(40,420)
Contribution Deficiency (Excess)	-	-	-	-	-	-	-
School District Covered Payroll	$ 524,979	$ 608,779	$ 481,264	$ 557,992	$ 338,146	$ 616,831	$ 310,923
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%

(1) The School began operations for the 2011 fiscal year.

Akros Middle School
Required Supplementary Information
Schedule of School District Contributions
School Teachers Retirement System of Ohio
Last Seven Fiscal Years (1)

	2017	2016	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 19,080	$ 14,154	$ 28,953	$ 13,274	$ 12,584	$ 2,936	$ 1,774
Contributions in Relation to the Contractually Required Contribution	(19,080)	(14,154)	(28,953)	(13,274)	(12,584)	(2,936)	(1,774)
Contribution Deficiency (Excess)	-	-	-	-	-	-	-
School District Covered Payroll	$ 136,286	$ 101,100	$ 219,674	$ 95,772	$ 90,925	$ 21,829	$ 14,113
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%

(1) The School began operations for the 2011 fiscal year.

Akros Middle School

Notes to the Required Supplementary Information

A. 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.

B. 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 financial statements for the methods and assumptions in this calculation.

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
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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

To the Members of the Board
Akros Middle School
Akron, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

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 Akros Middle School, Summit County, Ohio, (the School) as of and for the years ended June 30, 2017 and June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated February 26, 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. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we considered significant deficiencies as items **2017/2016-001, 2017/2016-002, 2017/2016-003**.

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.*

School's Response to Findings

The School's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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.

James G. Zupka, CPA, Inc.

James G. Zupka, CPA, Inc.
Certified Public Accountants

February 26, 2018

Finding 2017/2016-001 - Significant Deficiency - Receipts

Condition/Criteria:

During our testing of cash receipts, we noted the following:

- Several instances where the receipts lacked sufficient supporting documentation
- Lack of segregation of duties in the receipting process as the Treasurer receipts money, records and makes deposits;
- One instance where money was held for several months before the deposit was made
- Lack of pre-numbered receipt system

Cause/Effect

Due to employee turnover in the Treasurer and Director positions, cash receipts discrepancies have not all been resolved. Also, not depositing cash timely increases the risk of errors or cash flow problems. In addition, not pre-numbering receipts and a lack of segregation of duties in the receipting process can lead to recording errors which may cause revenues to be under or overstated.

Recommendation

We recommend maintaining supporting documentation for all receipts and their respective deposits. Also, we recommend that the Middle School develop a policy for depositing cash on a timely basis to prevent the risk of missing monies or developing cash flow issues. In addition, we recommend the Middle School prenumber receipts to properly account for all revenues. Lastly, someone other than the Treasurer should be involved in the receipts process to maintain a proper segregation of duties.

Client Response

The Academy has implemented a procedure for maintaining supporting documentation for all receipts and deposits. Deposits will be deposited within 3 business days of receipt. A procedure has been implemented for the receipt process in which there are at least three individuals involved in the process.

Finding 2017/2016-002 - Significant Deficiency - Disbursement

Condition/Criteria

During our testing of detailed disbursements, we noted the following:

- Lack of segregation of duties
- No review or oversight of voided transactions. Currently, transactions are voided by the same individual who is processing cash disbursements
- Checks being used out of sequence
- Several checks being outstanding for greater than 6 months
- Several disbursements did not have sufficient supporting documentation
- No formal approval of authorized check signers
- Copier Leases did not have adequate records maintained. Edge Academy was the sole lessee on the agreement even though Akros exclusively used some of the copiers. There was no documented agreement for Akros to pay for their portion of the lease. As a result, Akros Middle School is liable to Edge Academy, but there is no intention of payment.

Cause/Effect

Due to employee turnover in the Treasurer and Director positions, voucher packages did not contain sufficient support for the cash disbursements. In addition, a lack of segregation of duties and oversight in the disbursement process can lead to potential errors and/or misuse of the Middle School's funds. The lack of supporting documentation can lead to errors in recording to the Middle School's ledgers, which can lead to misstatements on the financials. Akros' financial statements contain a payable owed to Edge Academy for copier leases that are held Edge's name. Akros exclusively uses several of the copiers. The Middle School has not made a payment to Edge and it does not intend to make a payment going forward. This could cause the financial statements to become misleading to the end-users.

Recommendations

We recommend the Middle School maintain supporting documentation for all disbursements and leasing agreements that the Middle School enters into. Also, we recommend that the Middle School maintain leases for which it is responsible for to prevent the financial information from being misleading. In addition, we recommend the Middle School formally approve their check signers and have oversight for voids that occur in the disbursement process. The outstanding check list should be reviewed periodically to ensure outdated checks are being voided and re-issued. Lastly, someone other than the Treasurer should be involved in the disbursement process to maintain a proper segregation of duties or put compensating controls in place.

Client Response

The Academy will maintain supporting documentation for all disbursements and leasing agreements. A procedure has been put in place to assure that the outstanding check list is reviewed and outdated checks are properly voided and re-issued if necessary.

Finding 2017/2016-003 - Significant Deficiency - Payroll

Condition/Criteria

During our testing of detailed payroll, we noted the following:

- Two employees without an employee file on hand
- Three employees who did not have salary notifications or updated authorized pay rates
- Several instances where employees were not paid in accordance to their salary notifications
- Some employees work for both Akros Middle School and Edge Academy and the salaries are allocated. There is no written policy on how allocation is performed or any time study to support the allocation.
- Several inactive employees who did not have proper I-9 documentation
- The reporting and presentation of Net Pension Liability (GASB 68) was not calculated accurately.
- The Required Supplementary Information as related to (GASB 68) was omitted from the financial statements.

Cause/Effect

Due to employee turnover in the Treasurer and Director positions, payroll documentation was not adequately maintained. The inexperience of financial reporting team has led to misstatements and misrepresentations for Net Pension Liability. Also, this has led to the omission of the RSI from the financial statement even though they are required for Net Pension Liability disclosure.

Recommendation

We recommend that all employees have employee files with the Middle School and all current employee files be reviewed by the Middle School for completeness for all required information. All employees should have signed and authorized pay rate or salary notifications. The finance department should verify that the salaries being paid match their notifications and that all notifications be up to date and in personnel files. The Middle School should adopt a policy or perform a time study to properly determine how employees time should be allocated between the two schools. The financial reporting team should be educated on the requirements and methods of recording and reporting pension expense and related pension liability with respect to the financial statements.

Client Response

The current Director has implemented a system/checklist for ensuring all current and new employees have completed files including correct salary notifications. For the 2018-19 school year, employees of both schools, Akros and Edge, will be given separate salary notifications based of their positions. All employees will have signed and authorized pay rate and salary notifications.

AKROS MIDDLE SCHOOL
SUMMIT COUNTY, OHIO
SCHEDULE OF PRIOR CITATIONS AND RECOMMENDATIONS
JUNE 30, 2017 AND JUNE 30, 2016

The prior audit report, as of June 30, 2015, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

Dave Yost • Auditor of State

AKROS MIDDLE SCHOOL

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 24, 2018

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