PROVOST ACADEMY OHIO
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

Dave Yost • Auditor of State

PROVOST ACADEMY OHIO
FRANKLIN COUNTY
JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Provost Academy Ohio
Franklin County
1335 Dublin Road, Suite A-050
Columbus, Ohio 43215

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Provost Academy Ohio, Franklin County, Ohio (the School), as of and for the year ended 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 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 School'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 School'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 Provost Academy Ohio, Franklin County as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Notes 13 and 15 to the financial statements, the School is experiencing fiscal distress and on April 7, 2017 the School's Board and Management Company agreed to close the School effective June 30, 2017. The financial statements do not include any adjustments that might result from this pending closure. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require 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 April 13, 2017, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 School's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

April 13, 2017

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The discussion and analysis of Provost Academy Ohio financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 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 notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the School for the 2015-2016 school year are as follows:

- Total assets increased by $258,466.
- Total liabilities increased by $1,240,265.
- Total net position is $(2,659,910).
- Total operating and non-operating revenues were $935,764. Total operating expenses were $1,770,698.

USING THIS ANNUAL REPORT

This report consists of four parts: the MD&A, the basic financial statements, notes to those statements and required supplementary information. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how the School did financially during fiscal year 2016. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's Net Position and changes in Net Position. This change in Net Position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's' student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses 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 2016. This statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource 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 year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's Net Position for fiscal years 2016 and 2015.

Table 1
Statement of Net Position

	2016	2015
Assets		
Current Assets	$ 583,525	$ 211,139
Capital Assets, net	43,198	157,118
Total Assets	626,723	368,257
Deferred Outflows of Resources	502,563	363,333
Liabilities		
Current Liabilities	2,838,846	1,682,460
Long Term Liabilities	329,777	471,611
Net Pension Liability	571,241	345,528
Total Liabilities	3,739,864	2,499,599
Deferred Inflows of Resources	49,332	56,967
Net Position		
Net Investment in Capital Assets	43,198	157,118
Unrestricted	(2,703,108)	(1,982,094)
Total Net Position	$ (2,659,910)	$(1,824,976)

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 of resources.

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

Over time, Net Position can serve as a useful indicator of a government's financial position. At June 30, 2016, the School's net position totaled $(2,659,910).

Current assets represent cash and cash equivalents, intergovernmental receivables, grant receivables and accounts receivable. Current liabilities represent accounts payable, intergovernmental payables, and amounts owed to the management company at fiscal year-end.

Current Liabilities increased $1,156,386 due to an increase in Edison payable of $1,293,531, less a reduction in State Payable of $294,550.

Statement of Revenues, Expenses and Change in Net Position

Table 2 shows the change in Net Position for fiscal year 2016, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the School 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.

Table 2 – Change in Net Position

	2016	2015
Operating Revenue		
State Aid	$ 864,735	$ 286,020
Other Revenue	6,314	8,301
Total Operating Revenues	871,049	294,321
Operating Expenses		
Purchased Services: Edison Learning	1,421,570	1,307,266
Pension Expense	122,794	103,926
Sponsor Fees	26,085	8,678
Legal Fees	45,000	30,129
Accounting Fees	33,066	30,353
Depreciation	113,920	113,919
Directors Fees	7,675	8,100
Other	588	256
Total Operating Expenses	1,770,698	1,602,627
Operating Loss	(899,649)	(1,308,306)
Non-Operating Revenues		
Federal Grants	64,715	34,231
Total Non-Operating Revenues	64,715	34,231
Decrease in Net Position	(834,934)	(1,274,075)
Net Position, Beginning of Year	(1,824,976)	(550,901)
Net Position, End of Year	(2,659,910)	(1,824,976)

State aid increased because student enrollments increased from 2015 by 79 FTEs.

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 Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its Sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, annually.

CAPITAL ASSETS

At fiscal year end, the School's net capital asset balance was $43,198. This balance represents current year additions of $0 offset by current year depreciation of $113,920. For more information on capital assets, see Note 4 of the Basic Financial Statements.

DEBT

On June 30, 2014, the School entered into a Promissory Note with Edison Learning, Inc., in which the School promised to pay Edison Learning, Inc. a principal sum of $600,000 with interest on May 31, 2019 for expenses incurred on behalf of the School in fiscal year 2015. This note has an annual interest rate of 10 percent and is repaid on a monthly basis. Monthly payments began in July, 2015. For more information see Note 5 of the Basic Financial Statements.

CURRENT FINANCIAL ISSUES

The School is a community school and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue. The School continually evaluates the extent of the impact that changes in State funding will have on current year operations.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of students.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 1335 Dublin Road, Suite 50A Columbus, Ohio 43215-7037 or e-mail at dave@massasolutionsllc.com.

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PROVOST ACADEMY OHIO
FRANKLIN COUNTY
Statement of Net Position
At June 30, 2016

Assets		
Current Assets:		
Cash and Cash Equivalents	$	197,136
Intergovernmental Receivable		323,326
Grants Receivable		42,533
Accounts Receivable		20,530
Total Current Assets		583,525
Noncurrent Assets:		
Capital Assets:		
Depreciable Capital Assets, net		43,198
Total Noncurrent Assets		43,198
Deferred Outflows of Resources		
Pension		502,563
Total Deferred Outflows of Resources		502,563
Liabilities		
Current Liabilities:		
Accounts Payable		5,539
Accrued Interest		44,306
Intergovernmental Payable		504,942
Edison Advances Payable		2,034,356
Note Payable – Edison		249,703
Total Current Liabilities		2,838,846
Long Term Liabilities:		
Note Payable - Edison		329,777
Net Pension Liability (See Note 8)		571,241
Total Long-Term Liabilities		901,018
Deferred Inflows of Resources		
Pension		49,332
Total Deferred Inflows of Resources		49,332
Net Position		
Net Investment in Capital Assets		43,198
Unrestricted		(2,703,108)
Total Net Position	$	(2,659,910)

See accompanying notes to the basic financial statements

PROVOST ACADEMY OHIO
FRANKLIN COUNTY

Statement of Revenues,
Expenses and Change in Net Position
For the Year Ending June 30, 2016

Operating Revenues	
State Aid	$ 864,735
Other Revenue	6,314
Total Operating Revenues	871,049
Operating Expenses	
Purchased Services: Edison Learning	1,421,570
Pension Expense	122,794
Sponsor Fees	26,085
Legal Fees	45,000
Accounting Fees	33,066
Depreciation	113,920
Directors Fees	7,675
Other	588
Total Operating Expenses	1,770,698
Operating Loss	(899,649)
Non-Operating Revenues	
Federal Grants	64,715
Total Non-Operating Revenues	64,715
Change in Net Position	(834,934)
Net Position, Beginning of Year	(1,824,976)
Net Position, End of Year	$ (2,659,910)

See accompanying notes to the basic financial statements

PROVOST ACADEMY OHIO
FRANKLIN COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 402,532
Cash Received from Other Sources	8,083
Cash Payments to Suppliers for Goods and Services	(263,907)
Net Cash Provided by Operating Activities	146,708
Cash Flows from Non-capital Financing Activities	
Cash Received from Federal Grants	27,417
Net Cash Provided by Capital Financing Activities	27,417
Net Increase in Cash and Cash Equivalents	174,125
Cash and Cash Equivalents, Beginning of Year	23,011
Cash and Cash Equivalents, End of Year	$ 197,136

(Continued)

PROVOST ACADEMY OHIO
FRANKLIN COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016
(Continued)

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Loss	$ (899,649)
Depreciation	113,920
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:	
Increase Intergovernmental Receivable	(167,654)
Decrease in Unearned Revenue	(13,590)
Decrease Receivables	6,690
Decrease in Deferred Inflows	(7,635)
Increase in Net Pension Liability	225,713
Increase in Deferred Outflows	(139,230)
Increase Accounts Payable	5,376
Increase Accrued Interest	44,306
Decrease Intergovernmental Payable	(294,550)
Increase Edison Payable	1,273,011
Net Cash Provided by Operating Activities	$ 146,708

See accompanying notes to the basic financial statements

1. DESCRIPTION OF THE ENTITY

Provost Academy Ohio, (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The School operates on a foundation, which fosters character building for all students, parents and staff members. 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 acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Ohio Council of Community Schools, ("OCCS") (the Sponsor) for a five year period commencing on July 1, 2013. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Change in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes Net Position, financial position and cash flows.

The Government Accounting Standards Board requires the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets, deferred outflows of resources, all liabilities and deferred inflows of resources are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. 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 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided for in the School's sponsorship agreement. The contract between the School and its Sponsor requires a detailed budget for each year of the contract.

D. Cash and Cash Equivalents

Cash received by the School is reflected as "Cash and Cash Equivalents" on the Statement of Net Position. The School did not have any investments during the period ended June 30, 2016.

E. Estimates

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

F. Capital Assets and Depreciation

Capital assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from net position. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the asset which are as follows:

Asset Class	Useful Life
Computers and Software	3 years
Furniture, Fixtures, & Equipment	5 years
Leasehold Improvements	3 years

The School's policy for asset capitalization threshold is $5,000. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompany Statement of Net Position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

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

The School also participates in various federal programs passed through the Ohio Department of Education.

Under the above programs the School recorded $864,735 this fiscal year from the State Foundation Program and $64,715 from Federal grants.

H. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore the School does not accrue vacation time as a liability.

Sick/personal leave benefits are earned by full-time employees at the rate of eight days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payables of $49,845, intergovernmental payable of $504,942, note payable of $579,480 and Edison payable of $2,034,356 at June 30, 2016.

J. Exchange and Non-Exchange Transactions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net Position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Net 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.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2016.

M. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 8.

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. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources consisted of deferred inflows for pension of $49,332. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 8)

N. 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/deletions 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Implementation of Accounting Principles

For the fiscal year ended June 30, 2016, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, *and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.*

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the Scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement no. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and address the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for and external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

3. RECEIVABLES

A. Accounts Receivable

The School has accounts receivables totaling $20,530 at June 30, 2016. These receivables represented monies earned, but not received as of June 30, 2016.

B. Intergovernmental Receivable

The School has intergovernmental receivables totaling $323,326 at June 30, 2016. These receivables represented monies due to the School from government sources, but not received as of June 30, 2016.

3. RECEIVABLES (Continued)

C. Grants Receivable

The School has grants receivables totaling $42,533 at June 30, 2016. These receivables represented monies earned, but not received as of June 30, 2016.

4. CAPITAL ASSETS

For the period ending June 30, 2016, the School's capital assets consisted of the following:

	Balance 06/30/15	Additions	Deletions	Balance 06/30/16
Capital Assets:				
Computers and Software	$ 330,650	$ -	$ -	$ 330,650
Furniture, Fixtures, & Equipment	18,514	-	-	18,514
Total Capital Assets	349,164	-	-	349,164
Less Accumulated Depreciation:				
Computers and Software	(185,567)	(110,216)	-	(295,783)
Furniture, Fixtures, & Equipment	(6,479)	(3,704)	-	(10,183)
Total Accumulated Depreciation	(192,046)	(113,920)	-	(305,966)
Capital Assets, Net	$ 157,118	$(113,920)	$ -	$ 43,198

5. NOTE PAYABLE

On June 30, 2014, the School signed a five year promissory note with Edison Learning, Inc. for the sum of $600,000 payable monthly at ten percent interest. Repayment of the Note began in July, 2015. During 2016, the School made two payments on the note totaling $30,435, with $20,520 being applied to the principal balance. The School also recorded $44,306 of unpaid interest on the note as accrued interest. At year end 2016 the outstanding note balance is $579,480.

Promissory Note Year	Balance	Principal	Interest	Balance June 30,
June 2017	$ 579,480	$ 249,703	$ 40,774	$ 329,777
June 2018	$ 329,777	$ 156,685	$ 25,925	$ 173,092
June 2019	$ 173,092	$ 173,092	$ 9,518	$ -

In August 2016, the School paid the additional principal and accrued interest payments recorded at the end of fiscal year 2016.

6. LONG-TERM OBLIGATIONS

The changes in the School's long-term obligations during fiscal year 2016 were as follows:

	Principal Outstanding 06/30/15	Additions	Deductions	Principal Outstanding 06/30/16	Due Within One Year
Net Pension Liability:					
STRS	39,088	241,376	-	280,464	-
SERS	306,440	-	(15,663)	290,777	-
Total Net Pension Liability	345,528	241,376	(15,663)	571,241	-
Note Payable - Edison	600,000	-	(20,520)	579,480	249,703
Total Long-Term Obligations	945,528	241,376	(36,183)	1,150,721	249,703

7. RISK MANAGEMENT

Property & 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. During the fiscal year ending June 30, 2016, the School contracted with Crystal & Company; Crystal IBC, LLC, for nonprofits and maintained general liability insurance with a $1,000,000 single occurrence limit and $10,000,000 annual aggregate and a combined policy aggregate coverage for various liability coverage in the amount of $25,000,000.

8. DEFINED BENEFIT PENSIONS PLANS

A. 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.

8. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

A. Net Pension Liability

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. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued expense on the accrual basis of accounting.

B. Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

8. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

B. Plan Description - School Employees Retirement System (SERS) (CONTINUED)

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 School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School's contractually required contribution to SERS was $20,897 for fiscal year 2016.

C. Plan Description - State Teachers Retirement System (STRS)

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

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.

8. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

C. Plan Description - State Teachers Retirement System (STRS) (CONTINUED)

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

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

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

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

The School’s contractually required contribution to STRS was $26,063 for fiscal year 2016. There were no contributions to the DC and Combined Plans for fiscal year 2016.

8. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

D. 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, 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. Following is information related to the proportionate share and pension expense:

Proportionate Share of the Net Pension Liability	$290,777	$280,464	$571,241
Proportion of the Net Pension Liability	0.00509590%	0.00101481%	
Pension Expense	$79,425	$43,369	$122,794

At June 30, 2016, the School 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	$ 4,990	$ 11,285	$ 16,275
Change in proportionate share	216,044	223,284	439,328
School contributions subsequent to the measurement date	20,897	26,063	46,960
Total Deferred Outflows of Resources	$ 241,931	$ 260,632	$ 502,563
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$ 15,543	$ (8,655)	$ 6,888
Changes in proportionate share	42,444	-	42,444
Total Deferred Inflows of Resources	$ 57,987	$ (8,655)	$ 49,332

$46,960 reported as 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 in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

8. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

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

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	$ 53,091	$ 62,706	$ 115,797
2018	53,091	62,706	115,797
2019	53,065	62,708	115,773
2020	3,800	55,104	58,904
Total	$ 163,047	$ 243,224	$ 406,271

E. 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, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

8. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

E. Actuarial Assumptions – SERS (CONTINUED)

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 disability retirement.

The most recent experience study was completed June 30, 2010.

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 %	0.00 %
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 %	

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Schools District's net pension liability is expected to be significant.

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 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.

8. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

E. Actuarial Assumptions – SERS (CONTINUED)

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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 (6.75 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%)
School's proportionate share of the net pension liability	$ 403,203	$ 290,777	$ 196,105

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of the changes is not known, the impact to the School's net pension liability is expected to be significant.

F. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2015, 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:

8. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)

F. Actuarial Assumptions – STRS (Continued)

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 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, 2015. 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, 2015.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 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%)
School's proportionate share of the net pension liability	$ 389,585	$ 280,464	$ 188,185

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was $23,000. 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.

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were $0, $1,258 and $506, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

9. POSTEMPLOYMENT BENEFITS (Continued)

B. School Teachers Retirement Systems

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were $0, $0 and $181respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

10. CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Full-Time Equivalency

The School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, the traditional school districts must comply with the minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School; therefore, the financial statements impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School.

11. SPONSOR CONTRACT

The School contracted with Ohio Council of Community Schools (OCCS) as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2016, the total sponsorship fees paid totaled $26,085.

12. AGREEMENT WITH EDISON LEARNING, INC./ PURCHASED SERVICES EXPENSE

On May 15, 2013, the School contracted with Edison Learning, Inc. to provide educational programs that offer educational excellence and educational innovation based on Edison Learning, Inc.'s unique school design, comprehensive educational programs, and management principles. The contract may be renewed for an additional five-year term. Under the contract, Edison Learning, Inc. is responsible and accountable to the School's Board of Directors for the administration, operation, and performance of the School in accordance with the School's contract with OCCS to operate the School. Significant provisions of the contract are as follows:

A. Financial Provisions

1. Management Consulting and Operation Fee

In consideration for the variety of Professional and Administrative Management Services provided by Edison Learning, the School shall pay to Edison Learning a management fee of $250,000 per academic year of the Charter School.

2. The School's Financial Responsibility

The School is responsible for initial startup costs and rent. The School is also responsible to pay for legal fees, accounting, sponsor fees and other expenses directly related to activities of the Board.

3. Edison Financial Responsibilities

Edison Learning, Inc. is responsible for costs associated with operating the School. Such costs shall include, but shall not be limited to, salaries and benefits, including payroll taxes; pension and retirement; the purchase of curriculum materials, textbooks, computers and other equipment, software, and supplies; insurance premiums, utilities, janitorial services, and financial management services related to the operation of the School and repairs and maintenance of the School's facilities, except for capital repair. Edison Learning, Inc. shall equip the School's facilities with desks and other furniture and furnishings and these items are considered property of Edison Learning, Inc. Edison Learning, Inc. must secure and maintain commercial general liability coverage for bodily injury and property damage; educator liability coverage; automobile liability insurance, for, personal injury and property damage; property insurance for facilities; and workers' compensation insurance for employees.

4. Budget

Edison Learning, Inc. shall provide the School with an annual budget, in reasonable detail, by April 15 of each fiscal year for the following fiscal year.

12. AGREEMENT WITH EDISON LEARNING, INC./ PURCHASED SERVICES EXPENSE (CONTINUED)

B. Educational Services

Edison Learning, Inc. provides electronic educational services to 9-12 students, in addition to executing the financial responsibilities noted above.

C. Personnel

All personnel working at the School are employees of the School.

D. Agreement Termination

1. Termination by the School

The School may terminate the contract in the event Edison Learning, Inc. materially breaches the contract and Edison Learning, Inc. fails to remedy such breach within 90 days of its receipt of written notice of such breach from the School.

2. Termination by Edison Learning, Inc.

Edison Learning, Inc. may terminate the contract in the event the School materially breaches the contract and the School fails to remedy such breach within 90 days of its receipt of written notice of such breach from Edison Learning, Inc.

E. Edison Learning, Inc. - Purchased Services

For the fiscal year ended June 30, 2016, Edison Learning, Inc. incurred the following expenses on behalf of the School:

Direct Site Expenses:

Salaries and Wages and Benefits	$ 415,163
Professional and Technical Services	416,742
Property Services	39,422
Curriculum and materials	432,232
Other Direct Costs	118,011
Total Expenses	$ 1,421,570

13. FISCAL DISTRESS

Several factors have caused the School to experience fiscal distress. The School's cash balance at June 30, 2016 was $197,136. Additionally, the School has significant liabilities at June 30, 2016 which has resulted in a deficit net position of ($2,659,910). Overcoming this deficit may be difficult without significant increases in student enrollments and related revenues in order to pay off outstanding liabilities and cover ongoing operating costs.

14. MANAGEMENT PLAN

The amount owed to Edison Learning, Inc. at June 30, 2016 is for unpaid operating expenses and outstanding advances for the start-up of the School. Edison Learning, Inc. remains committed to the success of the School both academically and financially.

15. SUBSEQUENT EVENT

On April 7, 2017, the School's Board of Directors and Edison Learning agreed that the School be closed and all operations cease at June 30, 2017. Edison Learning is committed to financially supporting the school over the period of time it takes to close the School.

PROVOST ACADEMY OHIO
FRANKLIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST TWO FISCAL YEARS (1)

	2015	2014
School's Proportion of the Net Pension Liability	0.005096%	0.006055%
School's Proportionate Share of the Net Pension Liability	$ 290,777	$ 306,440
School's Covered-Employee Payroll	$ 153,411	$ 175,940
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.54%	174.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%

(1) Fiscal year 2014 was the School's first year of operations.

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

PROVOST ACADEMY OHIO
FRANKLIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
STATE TEACHER'S RETIREMENT SYSTEM OF OHIO
LAST TWO FISCAL YEARS (1)

	2015	2014
School's Proportion of the Net Pension Liability	0.00101481%	0.00016070%
School's Proportionate Share of the Net Pension Liability	$ 280,464	$ 39,088
School's Covered-Employee Payroll	$ 105,879	$ 16,471
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	264.89%	237.31%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%

(1) Fiscal year 2014 was the School's first year of operations.

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

PROVOST ACADEMY OHIO
FRANKLIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST THREE FISCAL YEARS (1)

	2016	2015	2014
Contractually Required Contribution	$ 20,897	$ 20,219	$ 24,632
Contributions in Relation to the Contractually Required Contribution	$ (20,897)	$ (20,219)	$ (24,632)
Contribution Deficiency (Excess)	$ -	$ -	$ -
School's Covered-Employee Payroll	$ 149,264	$ 153,411	$ 175,940
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	14.00%

(1) Fiscal year 2014 was the School's first year of operations.

PROVOST ACADEMY OHIO
FRANKLIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
STATE TEACHER'S RETIREMENT SYSTEM OF OHIO
LAST THREE FISCAL YEARS (1)

	2016	2015	2014
Contractually Required Contribution	$ 26,063	$ 14,823	$ 2,299
Contributions in Relation to the Contractually Required Contribution	$ (26,063)	$ (14,823)	$ (2,299)
Contribution Deficiency (Excess)	$ -	$ -	$ -
School's Covered-Employee Payroll	$ 186,164	$ 105,879	$ 16,421
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%

(1) Fiscal year 2014 was the School's first year of operations.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Provost Academy Ohio
Franklin County
1335 Dublin Road, Suite A-050
Columbus, Ohio 43215

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 Provost Academy Ohio, Franklin County, (the School) as of and for the year ended 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 April 13, 2017, wherein we noted the School is experiencing fiscal distress and on April 7, 2017, the School's Board and Management Company agreed to close the School effective June 30, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School'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 School'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 School'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School'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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

School's Response to Findings

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

April 13, 2017

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

FINDING NUMBER 2016-001

Material Weakness / Material Non-Compliance
Full-Time Equivalent (FTE) Reporting

Ohio Rev. Code Section 3314.08(H), in relevant part, provides that the Ohio Department of Education (ODE) adjust the amounts subtracted and paid under division **(C)** of that section to reflect the enrollment in community schools of students for less than the equivalent of a full school year. The state board of education within ninety days after April 8, 2003, was obligated to act under **Chapter 119 of the Revised Code** to adopt rules governing the payments to community schools under the section including initial payments in a school year, adjustments, and reductions made in subsequent periodic payments to community schools, and in corresponding deductions from school district accounts, as provided under division **(C)** of the section.

Ohio Rev. Code Section 3314.08(H)(2), in relevant part, provides that “A student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system established under section **3301.0714 of the Revised Code.** For purposes of applying this division and divisions **(H)(3) and (4)** of this section to a community school student, ’learning opportunities’ shall be defined in the contract, which shall describe both classroom-based and non-classroom-based learning opportunities and shall be in compliance with criteria and documentation requirements for student participation which shall be established by the department. Any student's instruction time in non-classroom-based learning opportunities shall be certified by an employee of the community school.”

Ohio Rev. Code Section 3314.08(H)(3) includes the following: “The department shall determine each community school student's percentage of full-time equivalency based on the percentage of learning opportunities offered by the community school to that student, reported either as number of hours or number of days, is of the total learning opportunities offered by the community school to a student who attends for the school's entire school year. However, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours. Whether it reports hours or days of learning opportunities, each community school shall offer not less than nine hundred twenty hours of learning opportunities during the school year.”

In addition, **Ohio Rev. Code Section 3314.03(A) (11) (a)** states, in relevant part, that “The school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year.”

The School received a Full-Time Equivalent (FTE) review by ODE for Fiscal Year 2015. During this review, ODE found that the School’s procedures and policies that were in place for Fiscal Year 2015 did not capture the duration of time a student spent on computer and non-computer learning opportunities. It was determined that the School was overfunded by $799,492 and was required to pay this money back to ODE in 19 monthly installments. As noted, in the 2015 final FTE review letter, dated September 14, 2015, the school was required to have another FTE review completed for Fiscal Year 2016.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2016-001 (Continued)

As a result of the Fiscal Year 2016 review completed by ODE, in a letter dated June 1, 2016, ODE stated, "the reviewer found that the original source documentation examined to be in order, and that all recommendations made by the review at the first review were followed and implemented". Therefore, the School was determined by ODE to be in compliance for Fiscal Year 2016.

During our review of Provost's policies and procedures, we noted these policies and procedures required many things above and beyond what Ohio Law requires to capture duration of time to support computer and non-computer time. For instance, the School's policy indicated that the time a student spent on learning opportunities during the weekend and holidays did not count toward FTE. Furthermore, the School was requiring the students to complete 300 minutes of learning opportunities each day before counting any time toward their FTE.

Upon our initial testing of 30 student files we realized that, while the School was capturing computer and non-computer learning opportunities, the FTE being reported for each student was based on the number of days the student was enrolled. If a student was enrolled for the entire school year, the School reported in EMIS an FTE of one for the student. Similarly, if a student was enrolled for a portion of the year, the student's FTE was adjusted accordingly. The School did not adjust FTE for actual learning duration for each student in EMIS, which could result in the School over reporting FTE in EMIS.

After learning that the School was reporting FTE based on the enrollment period, we selected four students to determine if the time of duration captured by the computer system and non-computer logs were reasonable when compared to the FTE reported to ODE. As part of our selection, we considered all time which the School's procedures captured. If the student participated in learning opportunities during the weekend and holidays, those minutes would be applicable as part of the student's FTE. We also did not consider whether or not the student completed 300 minutes of learning opportunities each day, as long as there was evidence of participation in learning opportunities.

However, the School's procedures to track non-computer time did not require students to log the start and end times related to the non-computer learning opportunities, meaning we were unable to determine if any of this time was duplicated within the time captured by the School's computer system. Furthermore, due to the significance of non-computer time, we decided we would be unable to accurately recalculate any of the selected students' FTEs. The lack of substantiated non-computer learning opportunities combined with the School's practice of reporting FTE based on enrollment period, reasonably concludes the School's likelihood of over-reporting of FTEs.

Further, upon review of the School's contract with the Ohio Council of Community Schools (the "Sponsor"); we noted the contract and attachments extensively define the educational curriculum utilized by the School. The contract and attachments, however, do not specify how the School should document "student participation" pursuant to requirements established by law, and, therefore, how the Sponsor could effectively monitor such compliance. The inclusion of such documentation would facilitate the School's compliance with requirements and standards established by law.

We recommend the School review current statutory requirements and guidance issued by ODE to determine the documentation needed to support the FTE data to be reported for each student. Once the School has a clear understanding of what is required to support FTE, the School should review and if applicable, update current policies and procedures to capture all critical elements of time spent by students on computer, as well as, non-computer learning opportunities.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2016-001 (Continued)

Officials' Response

The School has updated its current policies and procedures to expanded its learning opportunities for students by permitting access to the online platform 7 days a week 24 hours per day as the needs of our clients reflected accessibility to our software that was conducive for students and families at extended and various intervals. Using a nontraditional schedule in order to meet the cumulative demands of instructional hours for mastery as well as quantitative monitoring for hours below or above the 300 minute threshold.

Instructional hours are to be approved and certified by the teachers or instructor within a 24 hour period, with the exception of Saturdays and Sundays; which will be approved on Monday.

PROVOST ACADEMY OHIO
FRANKLIN COUNTY

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2016

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	Provost Academy Ohio expanded its learning opportunities for students by permitting access to the online platform Monday – Sunday 7 days a week 24 hours per day. Using a nontraditional schedule in order to meet the cumulative demands of instructional hours for mastery as well as, quantitative monitoring for hours below or above the 300 minute threshold. The needs of our clients reflected accessibility to our software that was conducive for students and families at extended and various intervals. Instructional hours are approved and certified by the teachers or instructor within a 24 hour period, with the exception of Saturdays and Sundays; which will be approved on Monday.	October 2016	John Izzo

PROVOST ACADEMY OHIO
FRANKLIN COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001 2014-001	Material Weakness /Material Noncompliance – Student Attendance Records – citation of ORC § 3314.08 & 3301.0714	Partially Corrected	The School has taken corrective action to address most control weaknesses identified in the prior finding. However, due to continued non-compliance and control deficiencies related to full-time equivalent reporting, the 2016 Schedule of Findings includes finding number 2016-001 which is a material weakness / material noncompliance citing ORC § 3314.08 & 3301.0714.

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PROVOST ACADEMY OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 9, 2017

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