PROVOST ACADEMY OHIO
FRANKLIN COUNTY

FINAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

Dave Yost • Auditor of State

**PROVOST ACADEMY OHIO**
**FRANKLIN COUNTY**
**JUNE 30, 2017**

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Dave Yost • Auditor of State

**INDEPENDENT AUDITOR'S REPORT**

Provost Academy Ohio
Franklin County
219 East Maple Street, Ste 202
North Canton, Ohio 44720

To the Board of Education:

***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, 2017, 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 the overall financial statement presentation.

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

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### ***Basis for Qualified Opinion on Net Pension Liability***

The School was unable to provide auditors with payroll information sufficient to gaining assurance regarding contribution amounts used to calculate the School's net pension liability, deferred outflows, deferred inflows, and pension expense in the respective amounts of $944,005, $629,379, $41,172 and $264,245, respectively. Consequently, we were unable to determine the accuracy of the amounts reported as the schools net pension.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on Net Pension Liability* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Provost Academy of Ohio, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 13 to the financial statements, the School has suffered decreasing enrollment and funding and has a net position deficiency raising substantial doubt about its ability to continue as a going concern. Note 13 describes Managements plans to close on June 30, 2017. The financial statements do not include any adjustments that might result from the schools 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 August 8, 2018 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**
Auditor of State
Columbus, Ohio

August 8, 2018

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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, 2017. 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 2016-2017 school year are as follows:

- Total assets decreased by $(459,193).
- Total liabilities increased by $744,455.
- Total net position is $(3,728,583).
- Total operating and non-operating revenues were $474,689. Total operating expenses were $1,543,362.

## USING THIS ANNUAL REPORT

This report consists of three parts: the 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 Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how the School did financially during fiscal year 2017. 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 2017. 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 2017 and 2016.

**Table 1**
**Statement of Net Position**

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Current Assets | $ 162,902 | $ 583,525 |
| Capital Assets, net | 4,628 | 43,198 |
| Total Assets | 167,530 | 626,723 |
| **Deferred Outflows of Resources** | 629,379 | 502,563 |
| **Liabilities** | | |
| Current Liabilities | 3,540,315 | 2,838,846 |
| Long Term Liabilities | - | 329,777 |
| Net Pension Liability | 944,005 | 571,241 |
| Total Liabilities | 4,484,319 | 3,739,864 |
| **Deferred Inflows of Resources** | 41,172 | 49,332 |
| **Net Position** | | |
| Net Investment in Capital Assets | 4,628 | 43,198 |
| Unrestricted | (3,733,211) | (2,703,108) |
| Total Net Position | $ (3,728,583) | $ (2,659,910) |

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, 2017, the School's net position totaled $(3,728,583).

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

Current liabilities increased $807,218 due to an increase in Edison payable of $938,423, a decrease in intergovernmental payable of $229,996, an increase in the note payable to Edison of $116,867, and a reduction in accrued expense of $37,537.

***Statement of Revenues, Expenses and Change in Net Position*** **-** Table 2 shows the change in Net Position for fiscal year 2017, 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**

| | 2017 | 2016 |
|---|---|---|
| **Operating Revenue** | | |
| State Aid | $ 362,481 | $ 864,735 |
| Other Revenue | 4,056 | 6,314 |
| **Total Operating Revenues** | 366,537 | 871,049 |
| **Operating Expenses** | | |
| Purchased Services: Edison Learning | 1,115,197 | 1,421,570 |
| Pension Expense | 264,245 | 122,794 |
| Sponsor Fees | 15,693 | 26,085 |
| Legal Fees | 47,500 | 45,000 |
| Accounting Fees | 53,894 | 33,066 |
| Depreciation | 38,570 | 113,920 |
| Directors Fees | 7,675 | 7,675 |
| Other | 588 | 588 |
| Total Operating Expenses | 1,543,362 | 1,770,698 |
| Operating Loss | (1,176,825) | (899,649) |
| **Non-Operating Revenues** | | |
| Federal Grants | 108,152 | 64,715 |
| Total Non-Operating Revenues | 108,152 | 64,715 |
| **Decrease in Net Position** | (1,068,673) | (834,934) |
| **Net Position, Beginning of Year** | (2,659,910) | (1,824,976) |
| **Net Position, End of Year** | $ (3,728,583) | $ (2,659,910) |

State aid decreased because student enrollments decreased from 2016 by 70 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 $4,628. This balance represents current year additions of $0 offset by current year depreciation of $38,570. 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. As of June 30, 2017, the outstanding balance of $366,571 was recorded as a current liability. 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.

On June 30, 2017, the School closed. See Note 13 of the Basic Financial Statements.

## 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, OHIO

### Statement of Net Position
### At June 30, 2017

| | |
|---|---|
| **Assets** | |
| *Current Assets:* | |
| Cash and Cash Equivalents | $ 68,821 |
| Intergovernmental Receivable | 1,744 |
| Grants Receivable | 53,372 |
| Other Receivable | 38,965 |
| Total Current Assets | 162,902 |
| *Noncurrent Assets:* | |
| Capital Assets: | |
| Depreciable Capital Assets, net | 4,628 |
| Total Assets | 167,530 |
| **Deferred Outflows of Resources** | |
| Pension | 629,379 |
| Total Deferred Outflows of Resources | 629,379 |
| **Liabilities** | |
| *Current Liabilities:* | |
| Accounts Payable | 25,000 |
| Accrued Expense | 6,768 |
| Intergovernmental Payable | 274,946 |
| Edison Advances Payable | 2,867,030 |
| Note Payable – Edison | 366,571 |
| Total Current Liabilities | 3,540,315 |
| *Long Term Liabilities:* | |
| Net Pension Liability (See Note 9) | 944,005 |
| Total Liabilities | 4,484,320 |
| **Deferred Inflows of Resources** | |
| Pension | 41,172 |
| Total Deferred Inflows of Resources | 41,172 |
| **Net Position** | |
| Net Investment in Capital Assets | 4,628 |
| Unrestricted | (3,733,211) |
| Total Net Position | $ (3,728,583) |

See accompanying notes to the basic financial statements

**PROVOST ACADEMY OHIO - FRANKLIN COUNTY, OHIO**

**Statement of Revenues,**
**Expenses and Change in Net Position**
**For the Year Ending June 30, 2017**

| | |
|---|---|
| **<u>Operating Revenues</u>** | |
| State Aid | $ 362,481 |
| Other Revenue | 4,056 |
| Total Operating Revenues | 366,537 |
| | |
| **<u>Operating Expenses</u>** | |
| Purchased Services: Edison Learning | 1,115,197 |
| Pension Expense | 264,245 |
| Sponsor Fees | 15,693 |
| Legal Fees | 47,500 |
| Accounting Fees | 53,894 |
| Depreciation | 38,570 |
| Directors Fees | 7,675 |
| Other | 588 |
| Total Operating Expenses | 1,543,362 |
| | |
| **Operating Loss** | (1,176,825) |
| | |
| **Non-Operating Revenues** | |
| Federal Grants | 108,152 |
| Total Non-Operating Revenues | 108,152 |
| | |
| **Change in Net Position** | (1,068,673) |
| | |
| **Net Position, Beginning of Year** | (2,659,910) |
| | |
| **Net Position, End of Year** | $ (3,728,583) |

See accompanying notes to the basic financial statements

## PROVOST ACADEMY OHIO - FRANKLIN COUNTY, OHIO

### Statement of Cash Flows
### For the Fiscal Year Ended June 30, 2017

| | | |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash Received from State of Ohio | $ | 664,444 |
| Cash Received from Other Sources | | 5,241 |
| Cash Payments to Suppliers for Goods and Services | | (895,314) |
| Net Cash (Used by) Operating Activities | | (225,629) |
| **Cash Flows from Non-capital Financing Activities** | | |
| Cash Received from Federal Grants | | 97,314 |
| Net Cash Provided by Capital Financing Activities | | 97,314 |
| **Net Decrease in Cash and Cash Equivalents** | | (128,315) |
| **Cash and Cash Equivalents, Beginning of Year** | | 197,136 |
| **Cash and Cash Equivalents, End of Year** | $ | 68,821 |

**(Continued)**

PROVOST ACADEMY OHIO - FRANKLIN COUNTY, OHIO

**Statement of Cash Flows**
**For the Fiscal Year Ended June 30, 2017**
(Continued)

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

| | |
|---|---|
| **Operating Loss** | $ (1,176,825) |
| Depreciation | 38,570 |
| Changes in Assets, Liabilities, and Deferred Inflows and Outflows: | |
| Decrease Intergovernmental Receivable | 323,326 |
| Increase Deferred Outflows | (126,816) |
| Increase Receivables | (20,179) |
| Decrease in Deferred Inflows | (8,160) |
| Increase in Net Pension Liability | 372,764 |
| Increase Accounts Payable | 19,461 |
| Decrease Accrued Expense | (37,539) |
| Decrease Intergovernmental Payable | (229,996) |
| Increase Edison Payable | 619,765 |
| Net Cash (Used by) Operating Activities | $ (225,629) |

See accompanying notes to the basic financial statements

## NOTE 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.

## NOTE 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.

***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.

***Measurement Focus and Basis of Accounting*** **-** The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net position.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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.

***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.

***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, 2017.

***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.

***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 |

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 assets.

***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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

The School also participates in various federal programs passed through the Ohio Department of Education. Under the above programs the School recorded $362,481 this fiscal year from the State Foundation Program and $108,152 from Federal grants.

***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.

***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 $25,000, accrued expenses of $6,768, intergovernmental payable of $274,946, note payable of $366,571 and Edison payable of $2,867,030 at June 30, 2017.

***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.

***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 consist 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.

***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, 2017.

***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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

***Deferred Inflows and Deferred Outflows of Resources*** **– (continued)**

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 related to pension are reported on the statement of net position. (See Note 8)

***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 position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

***Implementation of New Accounting Principles***

For the fiscal year ended June 30, 2017, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73.*

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the School.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

## NOTE 3 - RECEIVABLES

***Other Receivable*** **-** The School has other receivables totaling $38,965 at June 30, 2017. These receivables represented monies earned, but not received as of June 30, 2017.

***Intergovernmental Receivable*** **-** The School has intergovernmental receivables totaling $1,744 at June 30, 2017. These receivables represented monies due to the School from government sources, but not received as of June 30, 2017.

***Grants Receivable*** **-** The School has grants receivables totaling $53,372 at June 30, 2017. These receivables represented monies earned, but not received as of June 30, 2017.

## NOTE 4 - CAPITAL ASSETS

For the period ending June 30, 2017, the School's capital assets consisted of the following:

| | Balance 06/30/16 | Additions | Deletions | Balance 06/30/17 |
|---|---|---|---|---|
| **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 | (295,783) | (34,867) | - | (330,650) |
| Furniture, Fixtures, & Equipment | (10,183) | (3,703) | - | (13,886) |
| **Total Accumulated Depreciation** | (305,966) | (38,570) | - | (344,536) |
| **Capital Assets, Net** | $ 43,198 | $ (38,570) | $ - | $ 4,628 |

## NOTE 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 2017, the School made payments on the note totaling $244,827, with $212,909 being applied to the principal balance. At year end 2017 the outstanding note balance is $366,571 and has been recorded as a current liability.

## NOTE 6 - LONG-TERM OBLIGATIONS

The changes in the School's long-term obligations during fiscal year 2017 were as follows:

| | Principal Outstanding 06/30/16 | Additions | Deductions | Principal Outstanding 06/30/17 | Due Within One Year |
|---|---|---|---|---|---|
| Net Pension Liability: | | | | | |
| STRS | $ 280,464 | $ 311,764 | $ - | $ 592,228 | $ - |
| SERS | 290,777 | 61,000 | - | 351,777 | - |
| Total Net Pension Liability | 571,241 | 372,764 | - | 944,005 | - |
| Note Payable - Edison | 579,480 | | (212,909) | 366,571 | 366,571 |
| Total Long-Term Obligations | $ 1,150,721 | $ 372,764 | $(212,909) | $ 1,310,576 | $366,571 |

## NOTE 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, 2017, the School contracted with Acord 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.

## NOTE 8 - DEFINED BENEFIT PENSIONS 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.

## NOTE 8 - DEFINED BENEFIT PENSIONS PLANS – (CONTINUED)

***Net Pension Liability*** **– (continued)**

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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

**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 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<br>Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit<br>Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or<br>Age 60 with 25 years of service credit |

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

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

## NOTE 8 - DEFINED BENEFIT PENSIONS PLANS – (CONTINUED)

### School Employees Retirement System (SERS) – (continued)

***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, 2017, 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 2017.

The School's contractually required contribution to SERS was $8,136 for fiscal year 2017.

### 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. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

## NOTE 8 - DEFINED BENEFIT PENSIONS PLANS – (CONTINUED)

### State Teachers Retirement System (STRS) – (continued)

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

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

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

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

The School’s contractually required contribution to STRS was $12,276 fiscal year 2017.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** **-** The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School’s employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers.

## NOTE 8 - DEFINED BENEFIT PENSIONS PLANS – (CONTINUED)

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** **– (continued)**

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

| | STRS | SERS | Total |
|---|---|---|---|
| Proportionate Share of the Net Pension Liability | $ 592,228 | $ 351,777 | $ 944,005 |
| Proportion of the Net Pension Liability: | | | |
| Current Measurement Date | 0.00176927% | 0.00480630% | |
| Prior Measurement Date | 0.00101481% | 0.00509590% | |
| Change in Proportionate Share | 0.00075446% | -0.00028960% | |
| Pension Expense | $ 171,614 | $ 86,586 | $ 258,200 |

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School’s proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight-line method over a five-year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight-line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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

## NOTE 8 - DEFINED BENEFIT PENSIONS PLANS – (CONTINUED)

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** **– (continued)**

| | STRS | SERS | Total |
|---|---|---|---|
| **Deferred Outflows of Resources** | | | |
| Differences between Expected and Actual Experience | $ 23,929 | $ 4,745 | $ 28,674 |
| Net Difference between Projected and Actual Earnings on Pension Plan Investments | 49,172 | 29,016 | 78,188 |
| Changes of Assumptions | 0 | 23,483 | 23,483 |
| Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions | 336,336 | 142,286 | 478,622 |
| School Contributions Subsequent to the Measurement Date | 12,276 | 8,136 | 20,412 |
| **Total Deferred Outflows of Resources** | $ 421,713 | $ 207,666 | $ 629,379 |
| **Deferred Inflows of Resources** | | | |
| Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions | $ 0 | $ 41,172 | $ 41,172 |

$20,412 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | STRS | SERS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2018 | $ 112,522 | $ 68,841 | $ 181,363 |
| 2019 | 112,522 | 65,916 | 178,438 |
| 2020 | 122,079 | 15,260 | 137,339 |
| 2021 | 62,314 | 8,341 | 70,655 |
| | $ 409,437 | $ 158,358 | $ 567,795 |

***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.

## NOTE 8 - DEFINED BENEFIT PENSIONS PLANS – (CONTINUED)

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

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

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

| | |
|---|---|
| Wage Inflation | 3.00 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent |
| COLA or Ad Hoc COLA | 3.00 percent |
| Investment Rate of Return | 7.50 percent net of investment expense, including inflation |
| Actuarial Cost Method | Entry Age Normal (Level Percent of Payroll) |

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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

## NOTE 8 - DEFINED BENEFIT PENSIONS PLANS – (CONTINUED)

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

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

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| School's Proportionate Share of the Net Pension Liability | $ 465,731 | $ 351,777 | $ 256,393 |

***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 Increase | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment Rate of Return | 7.75 percent, net of investment expenses, including inflation |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on the fifth anniversary of the retirement date |

## NOTE 8 - DEFINED BENEFIT PENSIONS PLANS – (CONTINUED)

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 is based on the results of an actuarial experience study, effective July 1, 2012.

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

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

### *Actuarial Assumptions – STRS – (continued)*

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

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

## NOTE 8 - DEFINED BENEFIT PENSIONS PLANS – (CONTINUED)

***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 | $ 787,023 | $ 592,228 | $ 427,907 |

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

## NOTE 9 - POSTEMPLOYMENT BENEFITS

### School Employees Retirement System (SERS)

***Health Care Plan Description*** - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 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.

## NOTE 9 - POSTEMPLOYMENT BENEFITS _(CONTINUED)

***Funding Policy*** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, 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 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2017, 2016 and 2015 were $2,515 $0 and $1,258, respectively. The full amount has been contributed for fiscal years 2017, 2016 and 2015.

### School Teachers Retirement Systems (STRS)

***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 years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School did not contribute to health care in the last three fiscal years.

## NOTE 10 - CONTINGENCIES

***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.

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

## NOTE 10 – CONTINGENCIES (CONTINUED)

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

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

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

## NOTE 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, 2017, the total sponsorship fees paid totaled $15,693.

## NOTE 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:

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

### Financial Provisions

***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.

***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.

***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.

***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.

### Educational Services

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

***Personnel*** - All personnel working at the School are employees of the School.

### Agreement Termination

***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.

***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.

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

### Edison Learning, Inc. - Purchased Services

For the fiscal year ended June 30, 2017, Edison Learning, Inc. incurred the following expenses on behalf of the School:

**Direct Site Expenses:**

| | |
|---|---|
| Salaries and Wages and Benefits | $ 252,300 |
| Professional and Technical Services | 454,400 |
| Property Services | 32,452 |
| Curriculum and materials | 305,569 |
| Other Direct Costs | 70,476 |
| Total Expenses | $ 1,115,197 |

## NOTE 13 – SCHOOL CLOSURE

On April 7, 2017, the School's Board of Directors and Edison Learning agreed that the School be closed an 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. The School disposed of its assets and the bank accounts will be closed and any remaining cash after the School's final expenses and payables have been paid will be paid back to the ODE. Below is the School's Statement of Net Position as of October 31, 2017:

| | |
|---|---|
| **Assets** | |
| Cash | $ 66,103 |
| Receivables | 81,505 |
| Total Assets | 147,608 |
| Deferred Outflows of Resources | 629,379 |
| **Liabilities** | |
| Accounts Payable | 12,500 |
| Accrued Expense | 4,268 |
| Intergovernmental Payable | 274,946 |
| Notes Payable – Edison | 366,571 |
| Edison Advances Payable | 2,867,030 |
| Net Pension Liability | 944,005 |
| Total Liabilities | 4,469,320 |
| Deferred Inflows of Resources | 41,172 |
| **Net Position** | $ (3,733,505) |
| Beginning Net Assets | (3,728,583) |
| Expenses | (4,922) |
| **Ending Net Assets** | $ (3,733,505) |

Expenses recorded after the School closed June 30, 2017, was primarily the recording of the loss on the disposition of the School's capital assets.

## PROVOST ACADEMY OHIO - FRANKLIN COUNTY, OHIO

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| School's Proportion of the Net Pension Liability | 0.00480630% | 0.00509590% | 0.00605500% |
| School's Proportionate Share of the Net Pension Liability | $ 351,777 | $ 290,777 | $ 306,440 |
| School's Covered Payroll | $ 149,264 | $ 153,411 | $ 175,940 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 235.67% | 189.54% | 174.17% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 62.98% | 69.16% | 71.70% |

(1) Information prior to 2015 is not available.

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

**Notes:**

***School Employees Retirement System (SERS)***

*Changes of Benefit Terms:* None.

*Changes of Assumptions:* Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

## PROVOST ACADEMY OHIO - FRANKLIN COUNTY, OHIO

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| School's Proportion of the Net Pension Liability | 0.00176927% | 0.00101481% | 0.00016070% |
| School's Proportionate Share of the Net Pension Liability | $ 592,228 | $ 280,464 | $ 39,088 |
| School's Covered Payroll | $ 186,164 | $ 105,879 | $ 16,471 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 318.12% | 264.89% | 237.31% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.80% | 72.10% | 74.70% |

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

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

## PROVOST ACADEMY OHIO - FRANKLIN COUNTY, OHIO

### REQUIRED SUPPLEMENTARY INFORMATION
### SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
### SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
### LAST FOUR FISCAL YEARS

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Contractually Required Contribution | $ 8,136 | $ 20,897 | $ 20,219 | $ 24,632 |
| Contributions in Relation to the Contractually Required Contribution | (8,136) | (20,897) | (20,219) | (24,632) |
| Contribution Deficiency (Excess) | $ 0 | $ 0 | $ 0 | $ 0 |
| School's Covered Payroll | $ 58,114 | $ 149,264 | $ 153,411 | $ 175,940 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 13.18% | 14.00% |

(1) Information prior to fiscal year 2014 is unavailable

## PROVOST ACADEMY OHIO - FRANKLIN COUNTY, OHIO

### REQUIRED SUPPLEMENTARY INFORMATION
### SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
### STATE TEACHER'S RETIREMENT SYSTEM OF OHIO
### LAST FOUR FISCAL YEARS

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Contractually Required Contribution | $ 12,276 | $ 26,063 | $ 14,823 | $ 2,299 |
| Contributions in Relation to the Contractually Required Contribution | (12,276) | (26,063) | (14,823) | (2,299) |
| Contribution Deficiency (Excess) | $ 0 | $ 0 | $ 0 | $ 0 |
| School's Covered Payroll | $ 87,686 | $ 186,164 | $ 105,879 | $ 16,421 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 14.00% | 14.00% |

**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
219 East Maple Street, Ste 202
North Canton, Ohio 44720

To the Board of Education:

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, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 8, 2018, wherein we noted the Academy closed due to lack of enrollment and funding on June 30, 2017, which raised substantial doubt about its ability to continue as a going concern. We qualified our opinion on the financial statements due to the School's Management Company not providing adequate documentation to support information provided to the retirement systems, which was used to calculate the School's proportionate share of its net pension liability.

***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 certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2017-001 and 2017-002 to be material weaknesses.

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***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 items 2017-001 and 2017-002.

***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 report is not suitable for any other purpose.

**Dave Yost**
Auditor of State
Columbus, Ohio

August 8, 2018

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

### FINDING NUMBER 2017-001

**Material Weakness/Material Non-Compliance**
**Controls for Identifying and Removing Duplicate Time**

**Ohio Rev. Code § 3314.08(C)** provides the formula upon which community schools are funded on a full-time equivalency basis. In addition, **§ 3314.08(H)** requires the department of education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. The processes for calculating full-time equivalency and any enrollment for less than the equivalent of a full school year used by the Ohio Department of Education (ODE) under Ohio Rev. Code § 3314.08(H) are reflected in its 2017 FTE Review Manual available on its website. In order for the school to receive accurate funding under Ohio Rev. Code § 3314.08(C), the school should follow the procedures outlined in this 2017 FTE Review Manual.

**Ohio Rev. Code § 3314.08(H)(3)** states, in part, 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.

In the case *Electronic Classroom of Tomorrow v. Ohio Dept. of Edn.*, Slip Opinion No. 2018-Ohio-3126, the Ohio Supreme Court ruled that “the Ohio Department of Education has authority under R.C. 3314.08 to base funding of an e-school on the duration of student participation.” ODE has established student participation criteria and documentation requirements for electronic community schools in their FTE Review Manual

Furthermore, **Ohio Rev. Code § 3314.27** states, each internet- or computer-based community school shall keep an accurate record of each individual student's participation in learning opportunities each day. The record shall be kept in such a manner that the information contained within it easily can be submitted to the department of education, upon request by the department or the auditor of state.

Per the **FY17 FTE Review Manual**, in order to avoid significant adjustments at the end of the year or during FTE Review, schools should estimate the student’s “percent of time attended” upon enrollment, and document and follow a procedure to update the percent of time attended periodically. E-schools only receive credit for documented learning opportunities; missed days (both excused and unexcused absences) or assignments do not count as funded hours. A final adjustment will be made at the end of the school year to precisely reflect the student’s documented hours of participation in learning opportunities. Ohio Department of Education (ODE) will continue to adjust the FTE used for the funding formula as the school updates its information throughout the year. At the close of the school’s fiscal year end, ODE will reconcile the Final FTE Foundation payments and determine whether the school has a corresponding receivable from or payable due to ODE based upon the accumulation of student FTE’s throughout the year. It is critical that schools accurately and timely report their student data to ODE in order for this reconciliation to be performed.

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

**FINDING NUMBER 2017-001 (Continued)**

**Material Weakness/Material Non-Compliance (Continued)**
**Controls for Identifying and Removing Duplicate Time (Continued)**

The **FY17 FTE Review Manual** states that "eSchools may have systems that track learning opportunity participation that take place within the school's online system. If an eSchool's online system has this capability, then the school must produce Excel spreadsheets showing the daily/weekly/monthly accounting of learning opportunities and the final total of all online learning opportunities that the student participated in and were tracked by the eSchool's system."

Provost Academy Ohio (the School) utilizes eSchoolware as their Learning Management System (LMS). The LMS is only able to credit time for student participation which actually takes place within the system itself, while any time a student spends participating in learning opportunities outside the LMS must be logged separately. During fiscal year 2017, the School utilized electronic work logs as an application within the LMS. Before students could begin the day's work they were required to submit the prior day's work log.

While the School's electronic work logs allowed students to document the type of learning activities they participated in, and for which subject, such as studying, writing, reading, etc., the logs did not address the issue reported by auditors in the prior audit period. The non-computer work logs did not require students to log the start and end times related to the non-computer learning opportunities which the students had participated. As such, auditors were unable to determine if any of the time reported via work logs was duplicated within the time captured by the School's LMS. Furthermore, due to the significance of non-computer time reported, auditors were unable to accurately recalculate or verify any of the sampled students' FTEs. The lack of substantiated non-computer learning opportunities combined with the School's practice of reporting FTE based on enrollment period, rather than hours of participation, reasonably concludes the School's likelihood of over-reporting FTEs.

We recommend the School develop policies and implement procedures in order to accurately document and maintain student participation in learning opportunities, especially non-computer based learning opportunities, as well as properly adjusting students' percent of time accordingly. Proper policies and procedures may help ensure the School reports the correct number of FTEs and that the State provides the correct amount of funding.

ODE receives a copy of this audit report. As a result of this issue, they may subsequently perform a FTE review over future years potentially impacting school funding.

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

**FINDING NUMBER 2017-002**

**Material Weakness/Material Non-Compliance**
**Ohio Rev. Code § 3314.024 – Accounting for Management Company Expenses including Pension amounts reported to Retirement Systems**

**Ohio Rev. Code § 3314.03(A)(8)** includes the requirements of community schools to have financial audits performed by the Auditor of State (AOS). The contract between the sponsor and the governing authority shall require financial records of the school to be maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, and the audits shall be conducted in accordance with Ohio Rev. Code § 117.10. This includes preparing the footnote of management company expenses in accordance with Ohio Rev. Code § 3314.024.

**Ohio Rev. Code § 3314.024(A) & (B)** state a management company that receives more than twenty percent of the annual gross revenues of a community school shall provide a detailed accounting including the nature and costs of goods and services it provides to the community school. This information shall be reported using the categories and designations set forth in divisions (B) and (C) of this section, as applicable.

In order to meet these requirements, management companies may elect to have AOS (or contracting IPA's) audit this information at the management company or may provide independently audited financial statements and a statement showing the direct and allocated indirect (e.g., overhead) expenses for each school it manages. The companies should present this statement in a combining or consolidating format (i.e., present a column for each school). If a management company does not have audited financial statements or the audited financial statements do not present combining or consolidating columns for each of its schools, or if the management company's auditor does not provide opinion-level assurance on the combining or consolidating columns presenting each school, the Auditor of State will accept an agreed-upon procedures (AUP) report per AICPA Clarified Attestation Standards Section 215.

Edison Learning, the School's management company, received more than 20% of the School's annual gross revenue for fiscal year 2017. The School's management company did not provide audited financial statements, presenting combining or consolidating columns for each of its schools, or an agreed-upon procedures (AUP) report. Without this information, the School cannot gain the necessary assurances regarding the details the management company expenses related to monies paid to the management company by the School. .

Additionally, the School's Management Company did not provide auditors with a total payroll listing for all employees or the Management Company's general ledger. This resulted in a scope limitation and inability of the School's auditors to provide an opinion on the accuracy and completeness of the Pension amounts reported to the retirement system. Without access to the necessary records, we were unable to gain the necessary assurances that all employees were properly enrolled in the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS), and the contributions amount reflected in the schedule of employer allocations accurately reflected the School's contributions. Since the School's proportionate share of the net pension expense are based on the School's employer contributions, we were unable to gain sufficient, competent audit evidence supporting these amounts as reported in the financial statements. Failure to do so has resulted in a modification to the School's opinion.

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

**FINDING NUMBER 2017-002 (Continued)**

**Material Weakness/Material Non-Compliance (Continued)**
**Ohio Rev. Code § 3314.024 – Accounting for Management Company Expenses including Pension amounts reported to Retirement Systems (Continued)**

The School should obtain the necessary audit reports from the management company covering the expenses made by the management company on behalf of the School or provide the AOS (or contracting IPA's) the necessary support to audit this information at the management company. . The School's Board should review and revisit the management company contract to verify that the Management Company is accountable for complying with all required federal and State requirements. This may help provide the School with assurances regarding the School's operating expenses and help ensure these amounts included within the School's financial statements and footnotes are fairly stated. For additional information refer to the AOS website: https://ohioauditor.gov/references/guidance/communityschools.html.

**Officials' Response**

The School made numerous requests of the management company to provide the required AUP and management expense footnote pursuant to the requirements of Ohio Rev. Code Section 3314.024 for inclusion within the Schools financial statements.

**PROVOST ACADEMY**
**FRANKLIN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**
**JUNE 30, 2017**

| Finding Number | Finding Summary | Status | Additional Information |
|---|---|---|---|
| 2016-001 | Material Weakness/Material Non-Compliance – Full-Time Equivalent (FTE) Reporting - citation of ORC § 3314.08 and § 3314.03 | Not Corrected | The school did not take action to correct this issue. The school closed effective June 30, 2017. Due to continued non-compliance related to FTE reporting, the 2017 Schedule of Findings includes finding number 2017-001 which is a material weakness citing 3314.08 |

**PROVOST ACADEMY OHIO**
**FRANKLIN COUNTY**

**CORRECTIVE ACTION PLAN**
**JUNE 30, 2017**

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|---|---|---|---|
| 2017-001 | None. The School closed effective June 30, 2017 | N/A | Gamal Brown, Superintendent |
| 2017-002 | None. The School closed effective June 30, 2017 | N/A | Gamal Brown, Superintendent |

**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**
**DECEMBER 18, 2018**