GATEWAY ACADEMY OF OHIO
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

Dave Yost • Auditor of State

GATEWAY ACADEMY OF OHIO
FRANKLIN COUNTY

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INDEPENDENT AUDITOR'S REPORT

Gateway Academy of Ohio
Franklin County
2323 Lake Club Drive
Columbus, Ohio, 43232

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Gateway Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The Academy's 2015 financial statements were prepared from accounting ledgers recording expenditures as checks cleared the bank rather than as checks were issued and we are unable to determine the completeness and cutoff of the Academy's 2015 accounting ledgers. This prohibits us from opining on the Academy's beginning cash balances and beginning net position for the year ended June 30, 2016 as no modifications were made to the Academy's beginning balances to correct the issue identified in the prior year.

Qualified Opinion

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of Gateway Academy of Ohio, Franklin County, Ohio as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the Academy has suffered recurring losses from operations and has a net position deficiency. Note 17 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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 December 11, 2017, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

December 11, 2017

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Our discussion and analysis of Gateway Academy of Ohio (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- Total Net Position decreased $74,407, or 4.2% from 2015.
- Total liabilities increased $26,306 or 1.5% from 2015 and deferred inflows of resources increased $32,916, or 15.8%, while total assets decreased $35,494, or 58.9% from 2015 and deferred outflows of resources increased $20,309, or 29.1% from 2015.
- Total revenue decreased from $1,066,545 in fiscal year 2015 to $673,937 in fiscal year 2016, or 36.8%.
- Total expenses decreased from $1,032,914 in fiscal year 2015 to $748,344 in fiscal year 2016, a 27.5% decrease from 2015.
- Net Pension Liability decreased $5,619 which is offset by an increase of $32,916 in Deferred Inflows

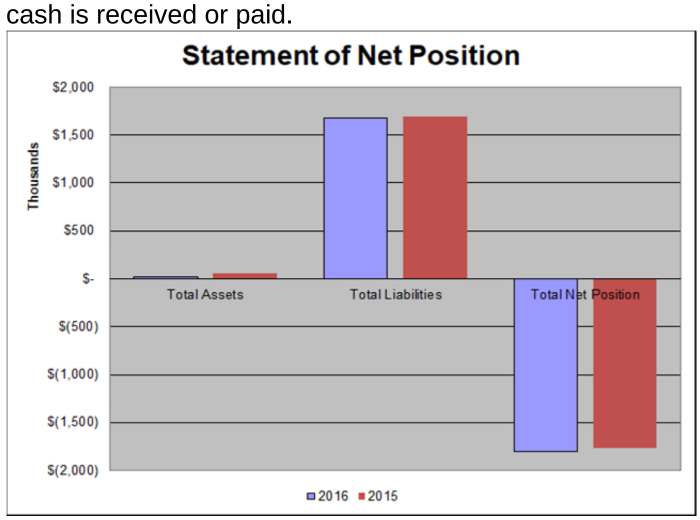
Using this Financial Report

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 Academy did financially during fiscal year 2016. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the Academy'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 Academy 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 Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.



Statement of Net Position

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

Table 1 provides a summary of the Academy's Net Position as of June 30, 2016 compared to the prior year.

(Table 1)
Statement of Net Position

	2016	2015
Assets		
Current Assets	$ 24,791	$ 60,285
Deferred Outflows		
Pension Requirements	$ 90,203	$ 69,894
Liabilities		
Current Liabilities	$ 611,219	$ 579,294
Long-Term Liabilities	1,106,020	1,111,639
	$ 1,717,239	$ 1,690,933
Deferred Inflows		
Pension Requirements	$ 240,795	$ 207,879
Net Position		
Unrestricted	(1,843,040)	(1,768,633)
Total Net Position	$(1,843,040)	$(1,768,633)

The revenue generated by a community Academy is almost entirely dependent on per-pupil allotment given by the state foundation and federal entitlement program receipts. Foundation and federal entitlement revenues made up 89% of all revenues for the Academy in fiscal year 2016. Total liabilities increased $26,306 due to a change in Net Pension Liability and current assets decreased $35,494 due to revenues falling short of total expenditures, resulting in Net Position decreasing $74,407 in 2016.

During 2015, the Academy adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy'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 Academy'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 Academy 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.

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal year 2016, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy 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 shows change in Net Position for fiscal year 2016 compared with fiscal year 2015.

(Table 2)
Change in Net Position

	2016	2015
Operating Revenues		
State Aid	$ 357,381	$ 742,895
Casino Aid	3,288	4,786
Facilities Funding	6,048	7,871
Other Operating	71,689	1,873
Non-Operating Revenue		
Federal Grants	235,531	254,295
Forgiveness of Capital Lease	-	54,825
Total Revenues	673,937	1,066,545
Operating Expenses		
Salaries	-	505,138
Fringe Benefits	-	170,443
Purchased Services: Salaries and Benefits	160,069	-
Purchased Services: Management Fees	60,919	-
Sponsorship Fees	12,155	-
Legal	22,206	-
Auditing and Accounting	46,887	-
Other Professional Services	204,633	-
Building Rent	83,261	-
Other Purchased Services	97,928	284,955
Materials and Supplies	9,585	15,880
Depreciation	-	1,007
Other	48,866	46,037
Non-Operating Expenses		
Loss on Capital Assets	-	7,130
Interest and Fiscal Charges	1,835	2,324
Total Expenses	748,344	1,032,914
Change in Net Position	$ (74,407)	$ 33,631

In accordance with GASB 68, the Academy'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. There were significant decreases in Foundation Revenues and Salary Expenses due to a decrease in student enrollment during the year.

Budgeting Highlights

Unlike other public school's located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor. The contract between the Academy and its Sponsor does prescribe a budgetary process. The Academy has developed a one year spending plan and a five-year forecast that is reviewed periodically by the Board of Trustees. The five-year forecasts are also submitted to the Sponsor and the Ohio Department of Education.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the Academy has $0 in net capital assets. See Note 4 to the basic financial statements.

Debt

At June 30, 2016, the Academy had $50,000 in outstanding debt due to Huntington National Bank for a line of credit. See Note 12 in the notes to the basic financial statements.

Current Financial Related Activities

The Academy's financial outlook over the next several years shows growth as enrollment is projected to increase. Enrollment for the Academy is at 40.32 students as of June 2016. But, future revenue increases are cautious due to Ohio's weak economic recovery.

Contacting the Academy's Financial Management

This financial report is designed to provide all citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Reginald Ray, CEO, Gateway Academy of Ohio, 2323 Lake Club Dr., Columbus, OH 43232.

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GATEWAY ACADEMY OF OHIO
FRANKLIN COUNTY, OHIO

Statement of Net Position
June 30, 2016

Assets	
Current Asset	
Cash and Cash Equivalents	$ 4,841
Intergovernmental Receivable	19,950
Total Assets	24,791
DEFERRED OUTFLOWS	
Pension Requirements	90,203
Liabilities	
Current Liabilities	
Accounts Payable	231,859
Intergovernmental Payable	329,360
Notes Payable, due within one year	50,000
Total Current Liabilities	611,219
Long-Term Liabilities:	
Net Pension Liability	1,106,020
Total Liabilities	1,717,239
DEFERRED INFLOWS	
Pension Requirements	240,795
Net Position	
Unrestricted	(1,843,040)
Total Net Position	$(1,843,040)

See accompanying notes to the basic financial statements

GATEWAY ACADEMY OF OHIO
FRANKLIN COUNTY, OHIO

Statement of Revenues,
Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Operating Revenues	
State Aid	$ 357,381
Casino Aid	3,288
Facilities Funding	6,048
Other Operating	71,689
Total Operating Revenues	438,406
Operating Expenses	
Purchased Services: Salaries and Benefits	160,069
Purchased Services: Management Fees	60,919
Sponsorship Fees	12,155
Legal	22,206
Auditing and Accounting	46,887
Other Professional Services	204,633
Building Rent	83,261
Other Purchased Services	97,928
Materials and Supplies	9,585
Insurance	13,836
Income Taxes	33,933
Other	1,097
Total Operating Expenses	746,509
Operating Income/(Loss)	(308,103)
Non-Operating Revenues (Expenses)	
Grants	235,531
Interest and Fiscal Charges	(1,835)
Total Non-Operating Revenues (Expenses)	233,696
Change in Net Position	(74,407)
Net Position Beginning of Year	(1,768,633)
Net Position End of Year	$(1,843,040)

See accompanying notes to the basic financial statements

GATEWAY ACADEMY OF OHIO
FRANKLIN COUNTY, OHIO

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

Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$419,745
Cash Received from Other Operating Sources	71,689
Cash Payments to Suppliers for Goods and Services	(707,596)
Net Cash Used for Operating Activities	(216,162)
Cash Flows from Noncapital Financing Activities	
Cash Received from Grants	220,107
Interest Paid-Notes Payable	(1,835)
Net Cash Provided by Noncapital Financing Activities	218,272
Net Increase in Cash and Cash Equivalents	2,110
Cash and Cash Equivalents Beginning of Year	2,731
Cash and Cash Equivalents End of Year	$ 4,841
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	$ (308,103)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources:	
Intergovernmental Receivable	53,028
Accounts Payable	67,228
Accrued Wages and Benefits	(64,542)
Intergovernmental Liabilities	29,239
Net Pension Liability	(5,619)
Deferred Outflows	(20,309)
Deferred Inflows	32,916
Net Cash Used in Operating Activities	$ (216,162)

See accompanying notes to the basic financial statements

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1. DESCRIPTION OF THE ENTITY

Gateway Academy of Ohio (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. On June 6, 2016, the Academy changed its name to the East Bridge Academy of Excellence and the Academy now serves grades K-6 effective for the 2016-2017 school year. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy specializes in providing a custom-made curriculum for each student to ensure academic success. The Academy utilizes sophisticated technology and small classroom sizes to guarantee individual attention to expose students in grades 7 through 12 to real world experience. The Academy, which is part of the State's education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

During fiscal year 2016, the Academy was under a sponsorship contract with Educational Resource Consultants of Ohio, Inc. (the Sponsor). On July 1, 2015, the sponsorship contract was renewed for one year commencing July 1, 2015 through June 30, 2016. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy is located in Columbus, Ohio, Franklin County. The Academy operates under the direction of a self- appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers who provide services to 40 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

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

B. Measurement Focus/Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflow of resources and all liabilities and deferred inflows of resources associated with the operation of the Academy are included on the Statement of Net Position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus/Basis of Accounting (Continued)

The Statement of Revenues, Expenses and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs.

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

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and the Sponsor does not prescribe an annual budget requirement, but sets forth a requirement to submit a spending plan each fiscal year. Furthermore, the Academy must submit a five-year forecast to its Sponsor and the Ohio Department of Education, annually.

D. Cash and Cash Equivalents

All cash received by the Academy is deposited in accounts in the Academy's name. The Academy did not have any investments during fiscal year 2016.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of $1,000. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The Academy does not capitalize interest.

All capital assets are depreciated. The Academy's capital assets consist of furniture and equipment. Depreciation is computed using the straight-line method. Equipment is depreciated over a period of five to fifteen years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the state foundation and state disadvantaged pupil impact aid programs. Revenues received from these programs 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 all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy participates in the Comprehensive Continuous Improvement Planning Program through the Ohio Department of Education. Revenue received from this program is recognized as non-operating revenues. Amounts awarded under the above programs for the 2016 Academy year totaled $592,912.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

H. Net Position

Net Position represents the difference between all assets and deferred outflows of resources less all liabilities and deferred inflows of resources). Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

H. Operating Revenues and Expenses

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by the Academy and an expense is recorded when used. The Academy has no prepaids as of June 30, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Pensions

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

K. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) 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 government-wide statement of net position. (See Note 8).

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” as amended by GASB Statement No.40, “Deposit and Investment Risk Disclosures”.

The Academy maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, per qualifying account. At June 30, 2016, the book amount of the Academy’s deposits was $4,841 and the bank balance was $4,841.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2016, none of the bank balance was exposed to custodial credit risk.

The total bank balance was insured by the (FDIC) up to $250,000. Deposits in excess of $250,000 are uninsured. The Academy had no investments at June 30, 2016 or during the fiscal year.

4. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2016, follows:

	As of 6/30/2015	Additions	Deletions	As of 6/30/2016
Depreciated: Furniture & Equipment	$34,005	-	-	34,005
Total	34,005	-	-	34,005
Depreciation: Furniture & Equipment	-34,005	-	-	-34,005
Total	-34,005	-	-	-34,005
Net Depreciated	$0	-	-	$0
Total Capital Assets	$0	-	-	$0

5. INTERGOVERNMENTAL RECEIVABLE/PAYABLE

At June 30, 2016, the Academy had intergovernmental receivables in the amount of $19,950 Intergovernmental receivables consisting of federal assistance (CCIP) and State Aid which eligibility requirements have been met (earned) at June 30, 2016, but the cash was not received by year end. The Academy also had intergovernmental payables of $ 329,360 primarily consisting of unpaid and accrued payroll tax liabilities.

6. ACCOUNTS PAYABLE

Accounts Payable consists of obligations totaling $231,859 at June 30, 2016, which were incurred during the normal course of conducting operations.

7. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. For fiscal year 2016, the Academy contracted with Liberty Mutual Insurance Company for property and general liability insurance. Below is a table showing coverage limits. There has been no reduction in coverage over the prior year. There have been no settlements exceeding coverage in the last three years. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

Per Occurrence	$1,000,000
Aggregate	2,000,000
Errors and Omissions	1,000,000
Property (All Locations)	300,000
Computer Aggregate:	$2,000,000,

B. Worker's Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. The Academy paid $1,389 in premiums as of June 30, 2016.

8. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

8. DEFINED BENEFIT PENSION PLANS (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 basis of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers.

8. DEFINED BENEFIT PENSION PLANS (continued)

The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was $16,740 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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

8. DEFINED BENEFIT PENSION PLANS (continued)

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.

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

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, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was $29,958 for fiscal year 2016.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net			
Pension Liability	$234,515	$871,505	$1,106,020
Proportion of the Net Pension	0.00410990%	0.00315339%	
Liability			
Pension Expense	$12,936	$40,750	$53,686

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

8. DEFINED BENEFIT PENSION PLANS (continued)

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$3,776	$39,729	$43,505
Academy contributions subsequent to the measurement date	16,740	29,958	46,698
Total Deferred Outflows of Resources	$20,516	$69,687	$90,203
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$7,769	$62,678	$70,447
Changes in proportion	116393	53955	$170,348
Total Deferred Inflows of Resources	$124,162	$116,633	$240,795

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

$90,203 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2017	$ (27,633)	$ (40,008)	$ (67,641)
2018	(27,633)	(40,008)	(67,641)
2019	(27,634)	(40,025)	(67,659)
2020	5,996	(346)	5,650
	$ (76,904)	$ (120,386)	$ (197,290)

Actuarial Assumptions - SERS

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

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

8. DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – SERS (continued)

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

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

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

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

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

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

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

8. DEFINED BENEFIT PENSION PLANS (continued)

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$ 325,188	$ 234,515	$ 158,161

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the District's net position liability is expected to be significant in fiscal year 2017.

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

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

8. DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – STRS (continued)

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$1,210,586	$871,505	$584,761

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation 23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were $646, $1,583 and $600 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014. –

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were $0, $0 and $6,646, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

10. LONG-TERM LIABILITY

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

	Balance Outstanding 6/30/2015	Additions	Reductions	Balance Outstanding 6/30/2016
Net Pension Liability	$1,111,639	$0	$5,619	$1,106,020

11. TAX EXEMPT STATUS

The Academy completed its application and filed for tax exempt status under 501(c) 3 of the Internal Revenue Code and was approved for tax exempt status on May 21, 2002. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

12. LINE OF CREDIT

During fiscal year 2011, the Academy borrowed $45,000 through a line of credit from Huntington Bank. During fiscal year 2012, the Academy borrowed an additional $12,864 and repaid $7,864 at an interest rate of 3.500%. Receivables are pledged to pay any outstanding balances.

The following activity occurred on the line of credit during the fiscal year 2016:

	As of 6/30/15	Additions	Deletions	As of 6/30/16
Line of Credit	$ 50,000	-	-	$ 50,000

During fiscal year 2016, the Academy incurred $1,835 in interest charges related to the line of credit.

13. CONTINGENCIES

A. Grants

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

13. CONTINGENCIES (continued)

B. Full Time Equivalency

School Foundation funding is based on the annualized fill-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional school districts as well as community school's must comply with minimum hours of instruction, instead of minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which can extend past the fiscal year's end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the Academy, which resulted in an intergovernmental payable.

14. SPONSOR

The Academy renewed its contract with its Sponsor for one year effective July 1, 2015. The Academy entered into a two-year contract commencing on July 1, 2016 and continuing through June 30, 2018 with the Sponsor. Under this agreement, the Academy pays the Sponsor "up to" 3% of State Aid (see Note 2F.). Sponsor fee expense at June 30, 2016 totaled $12,155.

15. CHANGE IN ACCOUNTING PRINCIPLES

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

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

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

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

15. CHANGE IN ACCOUNTING PRINCIPLES (continued)

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

16. SUBSEQUENT EVENTS

October 2016- The Academy obtained a promissory note in the amount of $106,500 from 2323 Partners LLC payable in $1,500 installments per month.

July 2017 – The Academy obtained a promissory note in the amount of $6,425 from Ohio Community School Consultants, Ltd, payable in a single installment on October 15, 2017.

17. DEFICIT NET POSITION AND MANAGEMENT PLAN

For fiscal year 2016, the Academy had an operating loss of $308,103, a decrease in net position of $74,407, and a cumulative net position deficit of $1,843,040. The deficit net position resulted from expenses exceeding revenues for the past seven consecutive years, due to a lack of growth in student enrollment. As of the end of November 2017, the Academy has a cumulative net position deficit of $679,951 excluding net pension liability.

The Academy will use a variety of strategies to increase enrollment to ultimately eliminate the negative net position. The most effective way to eliminate the negative cash position is to grow the Academy's enrollment over the next few years. In fiscal year 2017, the Academy enhanced its marketing plan and increased enrollment to 53 students. Currently, the Academy has 71 enrolled students for the 2017-18 Academy year and is still striving to reach its target enrollment of 100 students. This increase of enrollment will result in a positive change in net position of approximately $100,000. From that point forward it is the goal of the Academy to grow the enrollment by 15% in subsequent years until the Academy reaches their capacity. This additional revenue would allow the Academy to reduce its outstanding balances and have a positive impact on the Academy's negative net position.

The Academy will grow their enrollment by developing a comprehensive marketing plan with outreach activities. Marketing efforts will begin with a website with video and text content that will provide families with information related to curriculum, enrollment, targeted student expectations, and staff qualifications. Visitors will be directed to this website through all communications as well as an ongoing Google "AdWords" online ad campaign.

The Academy will also develop a comprehensive brochure to provide families with information, including the Academy's mission, and has also developed informational flyers that will be distributed in local shopping areas, public places, local youth programs, local athletic programs, and other areas as deemed appropriate to serve our mission and reach all families, including those that are typically hard to reach families. Working directly with the Academy, the Academy will distribute information to the parents of appropriately-aged students, hold open houses, and advertise via the local media. The Academy will utilize local public radio and print media to make announcements regarding enrollment opportunities and parent information meetings. The Academy will provide marketing materials in languages other than English. We will also make bilingual staff available to answer parent questions. The Academy will canvas neighborhoods considered "harder to reach" and provide flyers with Academy information. The Academy believes that this focused marketing approach will help to meet or exceed enrollment targets and achieve a racial/ethnic balance that accurately reflects the community at large and ultimately eliminates the Academy's negative net position.

18. AGREEMENT WITH EDUCATIONAL EMPOWERMENT GROUP

The Academy entered into a management agreement with the Educational Empowerment Group (EEG). The term of the contract is for 1 year beginning July 1, 2015 and ending June 30, 2016. The agreement shall automatically renew for 3 additional terms of 3 years. EEG is responsible and accountable to the Academy's Board of Directors for the administration and day-to-day operations of the Academy. Responsibilities include (but not limited to) student recruitment, budget development, personnel management, curriculum development/oversight, and facilities management.

The Academy pays EEG a base fee of 12% of the Academy's qualified gross revenues less the amount of any outstanding default costs and expenses. If enrollment increases, the base fee will increase based upon the following scale (with a contractual maximum of 15% of state revenues):

Enrollment = 95 FTE --> Continuing Fee = 13%
Enrollment = 115 FTE --> Continuing Fee = 14%
Enrollment = 135 FTE --> Continuing Fee = 15%

In July 2016, the Academy amended and updated its contract with Educational Empowerment Group, extending the contract for one year. As part of the agreement all employees of the Academy became employees of Educational Empowerment Group.

Total management fees earned to EEG for fiscal year 2016 were $60,919. Total reimbursements were $253,293 ($123,963 for staff purchased services and $129,330 for grant related services).

GATEWAY ACADMEY OF OHIO
Franklin County, Ohio
Required Supplementary Information
Schedule of Academy's Proportionate Share of Net Pension Liability
Last Three Fiscal Years (1)

	2016	2015		2014
State Teachers Retirement				
Academy's Proportion of the Net Pension	0.00315339%	0.00338930%		0.00338930%
Academy's Proportionate Share of the Net Pension Liability	$ 871,505	$ 783,591		$ 982,014
Academy's Covered-Employee Payroll	$ 437,971	$ 448,500		$ 373,662
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	198.99	183.81%		262.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%		69.30%
School Employees Retirement System (SERS)				
Academy's Proportion of the Net Pension	0.00410990%	0.00674000%		0.00674000%
Academy's Proportionate Share of the Net Pension Liability	$234,515	$ 328,048		$ 400,806
Academy's Covered-Employee Payroll	$103,953	$ 236,017		$ 204,595
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	225.60%	144.53%		195.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%		65.52%

(1) Information prior to 2014 is not available.

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

GATEWAY ACADMEY OF OHIO
Franklin County, Ohio
Required Supplementary Information
Schedule of Academy's Proportionate Share of Net Pension Liability
Last Three Fiscal Years (1)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
State Teachers Retirement System (STRS)										
Contractually Required Contribution	$ 29,958	$ 47,603	$ 58,305	$ 48,576	$ 63,686	$ 75,403	$ 109,182	$ 94,790	$ 100,765	$ 66,365
Contributions in Relation to the Contractually Required Contribution	(29,958)	(47,603)	(58,305)	(48,576)	(63,686)	(75,403)	(109,182)	(94,790)	(100,765)	(66,365)
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	-	-	-
Academy Covered-Employee Payroll	$ 213,986	$ 401,379	$ 448,500	$ 373,662	$ 489,892	$ 580,023	$ 839,862	$ 729,154	$ 775,115	$ 510,500
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
School Employees Retirement System (SERS)										
Contractually Required Contribution	$ 16,740	$ 10,798	$ 32,712	$ 28,316	$ 44,022	$ 45,178	$ 60,263	$ 26,112	$ 16,469	$ -
Contributions in Relation to the Contractually Required Contribution	(16,740)	(10,798)	(32,712)	(28,316)	(44,022)	(45,178)	(60,263)	(26,112)	(16,469)	-
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	-	-	-
Academy Covered-Employee Payroll	$ 119,571	$ 103,953	$ 236,017	$ 204,595	$ 327,301	$ 359,411	$ 445,074	$ 265,366	$ 167,709	$ -
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

Gateway Academy of Ohio
Franklin County
2323 Lake Club Drive
Columbus, Ohio, 43232

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Gateway Academy of Ohio, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 11, 2017, wherein we noted the Academy is experiencing certain financial difficulties. In addition, we have qualified our opinion on the Academy's beginning cash balances and beginning net position.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy'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 finding**s** 2016-001 and 2016-002 to be material weaknesses.

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-3402 or 800-443-9275
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Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-002.

Academy's Response to Findings

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

December 11, 2017

GATEWAY ACADEMY OF OHIO
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2016

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

FINDING NUMBER 2016-001

Financial Statement Presentation – Material Weakness

Sound financial reporting is the responsibility of the Treasurer and the Board of Directors and is an essential control to help ensure the information provided to the readers of the financial statements is complete and accurate.

We have applied the following audit adjustments to the Academy's financial statements and the statement of cash flows where appropriate:

- An increase in accounts payable of $36,106 related to amounts due to the Management Company for payroll contracts in FY2016 paid in FY2017.
- A reclassification of notes payable interest from capital and related financing to noncapital financing activities on the Statement of Cash Flows in the amount of $1,835.

In addition to the adjustments listed above, we also identified additional misstatements ranging from $81 to $30,897 that we have brought to the Academy's attention.

In prior audits, the Academy's accounting records were determined to be substantially incomplete and we were unable to opine on ending cash balances and ending net position. As no action was taken to rectify beginning balances for the year ended June 30, 2016, we modified our opinion over beginning cash balances and beginning net position.

Not maintaining adequate financial records resulted in the audit adjustments and opinion modifications noted above.

We recommend the Academy take steps to help ensure the accurate presentation of the financial statements. Financial transactions should be posted in accordance with procedures established by generally accepted accounting principles (GAAP) and should be reviewed regularly by the Board of Directors. By exercising caution in recording financial activity, the Academy can help reduce posting errors and increase the reliability of the financial data throughout the year and at year-end.

The Treasurer should review the audit adjustments identified above to help ensure that similar errors are not reported in subsequent years. In addition, the Academy should adopt policies and procedures over financial reporting, including a final review of the financial statements.

Official's Response: See corrective action plan.

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

FINDING NUMBER 2016-002

Student Admittances and Withdrawals – Noncompliance and Material Weakness

Ohio Rev. Code § 3314.08(H)(2) provides that a student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system established under section 3301.0714 of the Revised Code.

Ohio Rev. Code § 3314.08(H)(2) continues by stating a student's enrollment shall be considered to cease on the date on which any of the following occur: (a) The community school receives documentation from a parent terminating enrollment of the student; (b) The community school is provided documentation of a student's enrollment in another public or private school; (c) The community school ceases to offer learning opportunities to the student.

Ohio Rev. Code § 3314.03(A)(6)(b) further provides a requirement that the governing authority adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student without a legitimate excuse fails to participate in one hundred five consecutive hours of the learning opportunities offered to the student.

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

FINDING NUMBER 2016-002

Student Admittances and Withdrawals – Noncompliance and Material Weakness (Continued)

The Ohio Department of Education (ODE) EMIS Manual, Section 2.1.1 Student Enrollment Overview provides guidance on required documentation to be obtained by the School and maintained in the student file, including the documentation required for withdrawal for each withdrawal code reported in the SOES system.

The Academy had 23 students enroll after the start of the school year. Of the 4 students selected for testing, the Academy did not have student files for 2 students and attendance records could only be obtained for one of those students missing files. Of these four students tested, three of them were removed from the Academy before the last day of school and only one student file maintained the proper withdrawal documentation. In addition, we noted that 1 student was found to be truant more than 105 hours but remained enrolled at the Academy.

The Academy had 34 students withdrawn during fiscal year 2016. Of the 6 withdrawn students tested, the Academy did not have documentation from parents terminating enrollment or support for enrollment at another school for 5 of these students. We noted the Academy has policies in place regarding student enrollment and withdrawal.

Failure to maintain appropriate enrollment information could lead to inaccurate reporting of students enrolled within the Academy. Student enrollment is the primary determination of the amount of foundation revenue provided by the State. Overstating student attendance could cause the Academy to receive revenue it was not entitled to receive.

Violation of this statute also places the Academy in violation of its contract with its management company, Educational Empowerment, as the contract requires the Academy to be in compliance with the Ohio laws.

We recommend the Academy maintain withdrawal forms signed by the student's parent or guardian, supporting documentation or communication from other educational institutions or attendance and truancy documentation for all students whom have withdrawn from the Academy.

We further recommend the Academy un-enroll students who are truant in excess of 105 hours in accordance with the 105 hour rule.

Official’s Response: See corrective action plan.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001 2014-008	Financial statement presentation.(First issued in 2011)	Partially Corrected.	Reissued as Finding 2016-001. Refer to corrective action plan.
2015-002 2014-009	Bank reconciliation.	Fully Corrected.	
2015-003	Payroll Expenditures	Fully Corrected.	
2015-004 2014-007	Student Admittances and Withdrawals	Not Corrected.	Reissued as Finding 2016-002. Refer to corrective action plan.
2015-005	Ethics Referral	Fully Corrected.	
2015-006 2014-006	Unemployment Compensation Payments – ORC 4141.242.	Fully Corrected.	
2015-007	Finding for Recovery – Tuition Reimbursement	Not Corrected	The Finding for Recovery has not been fully repaid.
2015-008	Finding for Recovery – Supporting Documentation (Partially repaid under audit)	Partially Corrected.	The Finding for Recovery has not been fully repaid.
2015-009	Finding for Recovery – Termination Payment	Not Corrected	The Finding for Recovery has not been fully repaid.

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

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	A new treasurer is in place for the Academy. The new treasurer has always had a clean track record with previous school audits. The school feels confident that this material weakness will be addressed and rectified within the new treasurer's office.	Completed upon hiring of new treasurer, 7-1-16	Jeff Foster
2016-002	As stated in the Schedule of Findings, the school has policies and procedures in place to ensure proper enrollment and withdrawal documentation is maintained. The management company has provided professional development to the Administration and Enrollment Coordinator to ensure procedures and policies are followed. The management company's VP of Operations will conduct on-site reviews to ensure proper documentation is maintained.	8-1-16 On-going	Wendy Rydarowicz

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GATEWAY ACADEMY OF 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
JANUARY 16, 2018