Rea & associates a brighter way

Newark Digital Academy

(A Component Unit of Newark City School District)
Licking County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2017

Dave Yost • Auditor of State

Board of Directors
Newark Digital Academy
255 Woods Avenue
Newark, Ohio 43055

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

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

Dave Yost
Auditor of State

January 3, 2018

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Newark Digital Academy
(A Component Unit of Newark City School District)
Licking County, Ohio
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November 27, 2017

To the Board of Directors and Management
Newark Digital Academy
Licking County, Ohio
255 Woods Avenue
Newark, OH 43055

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Newark Digital Academy, Licking County, Ohio, (the “NDA”), a component unit of Newark City School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the NDA’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the NDA's Proportionate Share of the Net Pension Liability,* and *Schedule of NDA Contributions* on pages 3–8, 34-35 and 36-39, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017 on our consideration of the NDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NDA's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Dublin, Ohio

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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

Financial Highlights

Key financial highlights for 2017 are as follows:

- In total, net position was $2,232,833 at June 30, 2017.

- The NDA had operating revenues of $2,182,919, operating expenses of $2,757,939, and non-operating revenues of $321,162 for fiscal year 2017. Total change in net position for the fiscal year was a decrease of $253,858.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the NDA's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the NDA, including all short-term and long-term financial resources and obligations.

Reporting the NDA's Financial Activities

These documents look at all financial transactions and ask the question, "How did we do financially during 2017?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The statement of cash flows provides information about how the NDA finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

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

Net Position

	2017	2016
Assets		
Current assets	$ 3,620,774	$ 2,907,854
Capital assets, net	1,486,499	1,557,722
Total assets	5,107,273	4,465,576
Deferred outflows of resources	1,267,400	444,256
Liabilities		
Current liabilities	443,074	151,174
Non-current liabilities	3,698,766	2,160,287
Total liabilities	4,141,840	2,311,461
Deferred inflows of resources	-	111,680
Net Position		
Investment in capital assets	1,486,499	1,557,722
Restricted	60,223	19,439
Unrestricted	686,111	909,530
Total net position	$ 2,232,833	$ 2,486,691

Net Pension Liability and Deferred Inflows/Outflows of Resources Related to Pension

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

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

Under the standards required by GASB 68, the net pension liability equals the NDA'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 NDA 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 NDA'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. In addition, the NDA has reported a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Analysis of Net Position

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the NDA's net position totaled $2,232,833. At year-end, capital assets represented 29.11% of total assets. Capital assets consisted of land, buildings, computers and other equipment. Capital assets are used to provide services to the students and are not available for future spending.

Current assets increased due to an increase in cash and cash equivalents from fiscal year 2017 operations. Current and non-current liabilities increased due to an intergovernmental payable resulting from adjustments to state foundation funding for the fiscal year. In addition, non-current liabilities increased due to an increase in the NDA's net pension liability. In relation to net position, the effect of the increase in the net pension liability was partially offset by a corresponding increase in deferred outflows of resources related to pension.

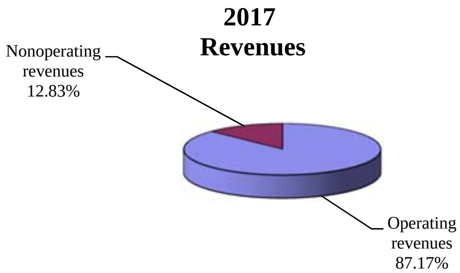
The table below shows the changes in net position for fiscal year 2017 and 2016.

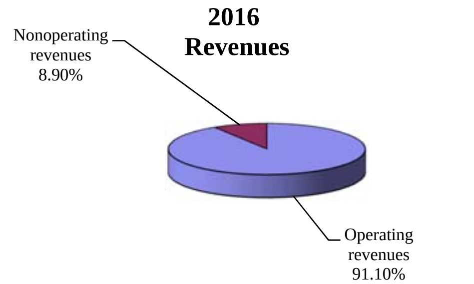
Change in Net Position

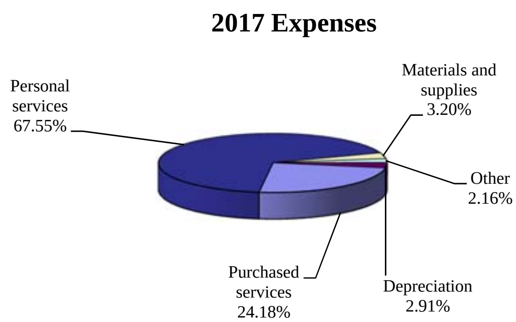
	2017	2016
Operating Revenues:		
State foundation	$ 2,182,919	$ 2,888,368
Operating Expenses:		
Personal services	1,862,878	1,411,983
Purchased services	666,792	850,397
Materials and supplies	88,273	165,422
Other	59,648	27,047
Depreciation	80,348	81,677
Total operating expenses	2,757,939	2,536,526
Operating income (loss)	(575,020)	351,842
Non-operating revenues:		
Grants and subsidies	291,929	267,968
Interest revenue	19,260	4,132
Other non-operating revenue	9,973	9,997
Total non-operating revenues	321,162	282,097
Change in net position	(253,858)	633,939
Net position at beginning of year	2,486,691	1,852,752
Net position at end of year	$ 2,232,833	$ 2,486,691

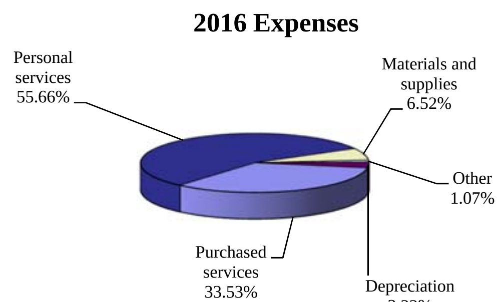
State foundation revenue decreased $705,449, or 24.42% from fiscal year 2016 due to full-time equivalency (FTE) adjustments. Operating income decreased $926,862 from fiscal year 2016 to fiscal year 2017 due to the increase in personal services and decrease in foundation revenue. Personal services increased primarily due to an increase in the NDA's pension expense. Pension expense for fiscal year 2017 was $474,944 compared to $139,546 for fiscal year 2016. In addition, the NDA received more federal grant funding in fiscal year 2017 versus fiscal year 2016. Grants and subsidies increased $23,961, or 8.94% from 2016.

The charts below illustrate the revenues and expenses for the NDA during fiscal year 2017 and 2016.









Capital Assets

At the end of fiscal 2017, the NDA had $1,486,499 invested in land, a building and furniture and equipment. The following table shows fiscal year 2017 balances compared to 2016:

Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities 2017	Governmental Activities 2016
Land	$ 6,630	$ 6,630
Building	1,459,289	1,526,095
Furniture and equipment	20,580	24,997
Total	$ 1,486,499	$ 1,557,722

See Note 5 to the basic financial statements for additional information on the NDA's capital assets.

Debt Administration

The NDA had no outstanding debt obligations at June 30, 2017.

Current Financial Related Activities

In fiscal year 2017, NDA utilized LACA to provide administrative services. NDA has been with Ace Digital Academy since fiscal year 2012 and is currently in year two of a three-year contract through fiscal year 2018 for the provision of on-line curriculum. Ace Digital Academy is an internet-based educational delivery system designed for grades K-12, providing alternative educational options for credit deficiencies, alternative programs, students being schooled at home and summer school programs. In addition, the NDA offers non-digital curriculum, such as Calvert School Educational Services, the American School and several flex credit options. The cutting edge nature of this kind of instructional delivery makes for constant change of the NDA's operations.

Contacting the NDA's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the NDA's finances and to show the NDA's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Julie Taylor, Treasurer, at Newark Digital Academy, 255 Woods Ave., Newark, Ohio 43055 or email at jltaylor@laca.org.

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:	
Current assets:	
Cash and cash equivalents	$ 3,489,941
Receivables:	
Intergovernmental	118,465
Prepayments	12,368
Total current assets	3,620,774
Non-current assets:	
Land	6,630
Depreciable capital assets, net	1,479,869
Total non-current assets	1,486,499
Total assets	5,107,273
Deferred outflows of resources:	
Pension - STRS	1,116,499
Pension - SERS	150,901
Total deferred outflows of resources	1,267,400
Liabilities:	
Current liabilities:	
Accounts payable	40,497
Accrued wages and benefits	91,771
Compensated absences	10,221
Intergovernmental payable	300,585
Total current liabilities	443,074
Non-current liabilities:	
Net pension liability	3,393,318
Intergovernmental payable	299,540
Compensated absences	5,908
Total non-current liabilities	3,698,766
Total liabilities	4,141,840
Net position:	
Investment in capital assets	1,486,499
Restricted for:	
Restricted for federal programs	60,223
Unrestricted	686,111
Total net position	$ 2,232,833

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO

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

Operating revenues:		
Foundation revenue	$	2,182,919
Operating expenses:		
Salaries and wages.		1,257,544
Fringe benefits.		605,334
Purchased services.		666,792
Materials and supplies		88,273
Other.		59,648
Depreciation		80,348
Total operating expenses.		2,757,939
Operating loss		(575,020)
Non-operating revenues:		
Grants and subsidies.		291,929
Interest revenue		19,260
Other non-operating revenue		9,973
Total nonoperating revenues		321,162
Change in net position		(253,858)
Net position at beginning of year		2,486,691
Net position at end of year	$	2,232,833

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO

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

Cash flows from operating activities:	
Cash received from state foundation	$ 2,729,902
Cash payments for personal services	(1,573,698)
Cash payments for purchased services	(685,689)
Cash payments for materials and supplies	(79,987)
Cash payments for other expenses	(27,888)
Net cash provided by operating activities	362,640
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	231,969
Cash received from miscellaneous receipts	9,973
Net cash provided by noncapital financing activities.	241,942
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(9,125)
Net cash used in capital and related financing activities.	(9,125)
Cash flows from investing activities:	
Interest received	19,260
Net cash provided by investing activities	19,260
Net increase in cash and cash equivalents	614,717
Cash and cash equivalents at beginning of year	2,875,224
Cash and cash equivalents at end of year	$ 3,489,941
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (575,020)
Adjustments:	
Depreciation	80,348
Changes in assets, deferred outflows, liabilities and deferred inflows:	
(Increase) in intergovernmental receivable	(28,528)
(Increase) in prepayments	(9,715)
(Increase) in deferred outflows - pension	(823,144)
Increase in accounts payable.	25,828
(Decrease) in accrued wages and benefits	(9,908)
Increase in intergovernmental payable	572,181
Increase in compensated absences payable	4,171
Increase in net pension liability	1,238,107
(Decrease) in deferred inflows - pension	(111,680)
Net cash provided by operating activities	$ 362,640

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTE 1 - DESCRIPTION OF THE SCHOOL

The Newark Digital Academy (NDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. NDA 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 NDA's tax exempt status. NDA's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. The students may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students with the Newark City School District, (sponsor of the NDA), that desire a specific course not currently offered but is available through online instruction.

NDA was created on February 11, 2003 by entering into a five year contract with the Newark City School District (the "Sponsor") through fiscal year 2008. On September 10, 2012, the NDA entered into a new five year contract through fiscal year 2017, which was subsequently extended through fiscal year 2019. The Sponsor is responsible for evaluating the performance of the NDA and has the authority to deny renewal of the contract at its expiration. The Sponsor receives payment from the NDA for oversight, monitoring and other purchased services (as agreed to between the NDA and the Sponsor). During fiscal year 2017, the NDA paid sponsorship fees and operating expenses of $135,390 to its Sponsor. The NDA is considered a component unit of the Newark City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61.

NDA has entered into a purchased services agreement contract with Ace Digital Academy (ADA) for the provision of on-line curriculum. See Note 6 for detail on this purchased services agreement contract.

NDA operates under the direction of a five-member Board of Directors. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The NDA provided services to 597 students in fiscal year 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The NDA'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.

NDA uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

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

B. Measurement Focus and Basis of Accounting

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of NDA are included on the statement of net position. 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 NDA's finances meet its cash flow needs.

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

C. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the NDA, see Note 9 for deferred outflows related to the NDA's net pension liability.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the NDA, see Note 9 for deferred inflows related to the NDA's net pension liability.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the NDA's contract with its Sponsor. The contract between NDA and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

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

E. Cash and Cash Equivalents

Cash received by NDA is reflected as "cash and cash equivalents" on the statement of net position. NDA had no investments during the fiscal year ended June 30, 2017.

F. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition values as of the date received. The NDA maintains a capitalization threshold of one thousand dollars. The NDA does not possess any infrastructure.

All reported capital assets, except for land are depreciated. Depreciation is computed using the straight-line method. Buildings are depreciated over forty years, furniture is depreciated over twenty years, and computers are depreciated over six years.

G. Intergovernmental Revenue

The NDA currently participates in the State Foundation Program, the Data Communication grant, IDEA Part B grant, the Title I Disadvantaged Children grant and the Improving Teacher Quality grant. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2017 school year, excluding all other State and Federal grants, totaled $2,182,919.

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. State and Federal grants revenue for the fiscal year 2017 received was $291,929.

H. Net Position

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

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

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the NDA. Operating expenses are necessary costs incurred to provide goods or services that are the primary activity of the NDA. All revenues and expenditures not meeting this definition are reported as non-operating.

K. 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.

L. Compensated Absences

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service; or 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16. At June 30, 2017, two employees met the criteria to record a liability for sick leave. A liability for unused vacation at June 30, 2017 has been reported on the financial statements.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2017, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the statement of net position.

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

M. Estimates

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

NOTE 3 - CHANGES IN ACCOUNTING POLICIES

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

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the NDA.

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

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

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

NOTE 4 - DEPOSITS

At June 30, 2017, the carrying amount of NDA deposits was $3,489,941. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, the entire bank balance of $3,489,941 was covered by the Federal Deposit Insurance Corporation.

NOTE 5 - CAPITAL ASSETS

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

	Balance 06/30/16	Additions	Reductions	Balance 06/30/17
Capital assets, not being depreciated:				
Land	$ 6,630	$ -	$ -	$ 6,630
Total capital assets, not being depreciated	6,630	-	-	6,630
Capital assets, being depreciated:				
Building	1,676,099	8,000	-	1,684,099
Furniture and equipment	67,393	1,125	-	68,518
Total capital assets, being depreciated	1,743,492	9,125	-	1,752,617
Less: accumulated depreciation				
Building	(150,004)	(74,806)	-	(224,810)
Furniture and equipment	(42,396)	(5,542)	-	(47,938)
Total accumulated depreciation	(192,400)	(80,348)	-	(272,748)
Capital assets, net	$ 1,557,722	$ (71,223)	$ -	$ 1,486,499

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NOTE 6 - SERVICE AGREEMENT

ACE Digital Academy

During fiscal year 2017, NDA is in the second year of a three-year contract with Ace Digital Academy (ADA) for the provision of on-line curriculum. The contract with ADA runs through fiscal year 2018.

ADA is an internet-based educational delivery system designed for grades K-12, providing alternative educational options for credit deficiencies, alternative programs, students being schooled at home and summer school programs.

Under the contract, the following terms were agreed upon:

ADA shall provide NDA with the following services: development and maintenance of NDA's ADA database including registration of students and faculty, technology professional development, ADA technical support, marketing consultation, treasurer's office/EMIS support, and intervention support.

The student ADA license fees will be the responsibility of NDA at a rate of $150 per student. Additional fees will be charged for students enrolled in specialized courses.

For fiscal year 2017, $299,530 was paid by NDA under this contract.

NOTE 7 - PURCHASED SERVICES

For fiscal year ended June 30, 2017, purchased services expenses were as follows:

Professional and technical services	$ 200,602
Property services	28,336
Travel mileage/meeting expenses	43,166
Communications	128,615
Utilities	14,945
Tuition and similar payments	12,174
Other purchased services	238,954
Total	$ 666,792

NOTE 8 - RISK MANAGEMENT

The NDA 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. Coverage was provided by various insurance carriers. During fiscal year ending June 30, 2017, the NDA contracted through Philadelphia Insurance for the following coverage amounts:

Per Occurrence	$ 1,000,000
Annual Aggregate	$ 2,000,000

NOTE 8 - RISK MANAGEMENT - (Continued)

In addition, NDA purchased $1,000,000 excess liability coverage through Lexington Insurance Company and a $1,000,000 multi-media liability, network security, data recovery and business interruption, privacy regulatory defense and penalties, crisis management and customer notification, data extortion, and payment card industry fines and penalties policy through Lloyds of London.

Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant changes in coverage from the prior year.

NOTE 9 - 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 NDA'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 NDA's obligation for this liability to annually required payments. The NDA cannot control benefit terms or the manner in which pensions are financed; however, the NDA does receive the benefit of employees' services in exchange for compensation including pension.

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

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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

The NDA's contractually required contribution to SERS was $31,091 for fiscal year 2017. Of this amount, $2,381 is reported as intergovernmental payable.

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description –NDA 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.

NOTE 9 - 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.

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 NDA 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 NDA's contractually required contribution to STRS was $140,570 for fiscal year 2017. Of this amount, $9,806 is reported as intergovernmental payable.

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

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

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.00556480%	0.00664932%	
Proportion of the net pension liability current measurement date	0.00586150%	0.00885582%	
Change in proportionate share	0.00029670%	0.00220650%	
Proportionate share of the net pension liability	$ 429,008	$ 2,964,310	$ 3,393,318
Pension expense	$ 75,429	$ 399,515	$ 474,944

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 5,784	$ 119,774	$ 125,558
Net difference between projected and actual earnings on pension plan investments	35,388	246,115	281,503
Changes of assumptions	28,639	-	28,639
Difference between NDA contributions and proportionate share of contributions/ change in proportionate share	49,999	610,040	660,039
NDA contributions subsequent to the measurement date	31,091	140,570	171,661
Total deferred outflows of resources	$ 150,901	$ 1,116,499	$ 1,267,400

$171,661 reported as deferred outflows of resources related to pension resulting from NDA 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:

Fiscal Year Ending June 30:	SERS	STRS	Total
2018	$ 39,769	$ 219,725	$ 259,494
2019	39,743	219,725	259,468
2020	30,124	314,165	344,289
2021	10,174	222,314	232,488
Total	$ 119,810	$ 975,929	$ 1,095,739

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 9 - DEFINED BENEFIT PENSION 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 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

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

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

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Sensitivity of the NDA'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%)
NDA's proportionate share of the net pension liability	$ 567,979	$ 429,008	$ 312,683

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Sensitivity of the NDA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate **-** The following table presents the NDA'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 NDA'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%)
NDA's proportionate share of the net pension liability	$ 3,939,327	$ 2,964,310	$ 2,141,826

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 NDA's NPL is expected to be significant.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the NDA's surcharge obligation was $2,715.

The NDA's contributions for health care (including surcharge) for the fiscal years ended June 30, 2017, 2016, and 2015 were $2,715, $2,550, and $3,146, respectively. The fiscal year 2017 amount has been reported as intergovernmental payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. None of the NDA's contributions were allocated to fund health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 11 - CONTINGINCIES

A. Grants

The NDA received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the NDA at June 30, 2017, if applicable, cannot be determined at this time.

B. Litigation

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

C. State Foundation Funding

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

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

In addition, the NDA’s contract with their Sponsor requires 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 NDA.

NOTE 12 - RECEIVABLES

Receivables at June 30, 2017 consisted of intergovernmental grants and sponsor fee overpayment as a result of FTE adjustments in the amount of $118,465. These intergovernmental receivables are expected to be collected in the subsequent year.

NOTE 13 - LONG-TERM OBLIGATIONS

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due in One Year
Net pension liability:					
STRS	$ 1,837,678	$ 1,126,632	$ -	$ 2,964,310	$ -
SERS	317,533	111,475	-	429,008	-
Total net pension liability	2,155,211	1,238,107	-	3,393,318	-
Intergovernmental payable			-		
(FTE adjustment)	-	549,157	-	549,157	249,617
Compensated absences:					
Severance liability	5,076	832	-	5,908	-
Total long-term liabilities	$ 2,160,287	$ 1,788,096	$ -	$ 3,948,383	$ 249,617

Net Pension Liability: See Note 9 for information on the NDA's net pension liability.

Intergovernmental Payable: Represents the amounts due to the State of Ohio based upon the results of fiscal year 2017 full-time equivalency (FTE) true-ups calculated by ODE. This amount will be fully repaid in fiscal year 2019 through monthly foundation adjustment.

*Note: Current portion of intergovernmental payable on the financial statements represents $249,617 related to the FTE adjustment and other amounts totaling $50,968.

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REQUIRED SUPPLEMENTARY INFORMATION

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	2017	2016	2015	2014
NDA's proportion of the net pension liability	0.00586150%	0.00556480%	0.00409100%	0.00409100%
NDA's proportionate share of the net pension liability	$ 429,008	$ 317,533	$ 207,043	$ 243,279
NDA's covered-employee payroll	$ 171,686	$ 167,527	$ 118,867	$ 118,201
NDA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	249.88%	189.54%	174.18%	205.82%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

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

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

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	2017	2016	2015	2014
NDA's proportion of the net pension liability	0.00885582%	0.00664932%	0.00599965%	0.00599965%
NDA's proportionate share of the net pension liability	$ 2,964,310	$ 1,837,678	$ 1,459,323	$ 1,738,335
NDA's covered-employee payroll	$ 913,543	$ 693,129	$ 613,015	$ 488,346
NDA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	324.49%	265.13%	238.06%	355.96%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

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

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

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2017	2016	2015	2014
Contractually required contribution	$ 31,091	$ 24,036	$ 22,080	$ 16,475
Contributions in relation to the contractually required contribution	(31,091)	(24,036)	(22,080)	(16,475)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
NDA's covered-employee payroll	$ 222,079	$ 171,686	$ 167,527	$ 118,867
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

2013	2012	2011	2010	2009	2008
$ 16,359	$ 16,593	$ 10,957	$ 3,684	$ 2,199	$ 2,599
(16,359)	(16,593)	(10,957)	(3,684)	(2,199)	(2,599)
$ -	$ -	$ -	$ -	$ -	$ -
$ 118,201	$ 123,368	$ 87,168	$ 27,208	$ 22,348	$ 26,466
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2017	2016	2015	2014
Contractually required contribution	$ 140,570	$ 127,896	$ 97,038	$ 79,692
Contributions in relation to the contractually required contribution	(140,570)	(127,896)	(97,038)	(79,692)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
NDA's covered-employee payroll	$ 1,004,071	$ 913,543	$ 693,129	$ 613,015
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

2013		2012		2011		2010		2009		2008	
$	63,485	$	49,174	$	37,688	$	13,917	$	8,770	$	2,682
	(63,485)		(49,174)		(37,688)		(13,917)		(8,770)		(2,682)
$	-	$	-	$	-	$	-	$	-	$	-
$	488,346	$	378,262	$	289,908	$	107,054	$	67,462	$	20,631
	13.00%		13.00%		13.00%		13.00%		13.00%		13.00%

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

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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

November 27, 2017

To the Board of Directors and Management
Newark Digital Academy
Licking County, Ohio
255 Woods Avenue
Newark, OH 43055

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Newark Digital Academy, Licking County, Ohio (the NDA), a component unit of Newark City School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the NDA's basic financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the NDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NDA's internal control. Accordingly, we do not express an opinion on the effectiveness of the NDA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2017-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NDA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards.*

NDA's Response to the Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Dublin, Ohio

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

Finding Number: 2017-001

Material Weakness – Internal Controls Over Financial Reporting

Criteria: The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. AU-C 265 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This standard requires the audit to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, AU-C 265 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Condition: A significant audit adjustment was made to the financial statements presented for audit.

Cause: The long-term portion of the fiscal year 2017 FTE adjustment to the Academy's State Foundation funding was not recorded as an intergovernmental payable. Also, the corresponding receivable for the reduction in sponsor payments owed to the sponsor was not recorded.

Effect: The Academy's foundation revenue for fiscal year 2017 was overstated and due to other governments was understated by $299,540. Also, the Academy's due from other governments was understated and purchases services were overstated by $27,458. These adjustments resulted in a $272,082 overstatement of net position.

Recommendation: To ensure the Academy's financial statements and notes to the financial statements are complete and accurate, the Academy should perform a final review of the statements and notes to identify and correct errors and omissions.

Management's Response: The FY17 Foundation Adjustment was based upon review of the actual settlement sheets for August – September. It appears that for the JV39 adjustment, only 10 months of the liability is reported in the Settlement sheets (what will be paid in FY18) whereas the payment is spread out over 22 months. The JV39 for FY17 is very unusual in nature based on FTE audits by ODE.

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

Finding Number: 2017-001

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Newark Digital Academy
(A Component Unit of Newark City School District)
Licking County, Ohio
Schedule of Prior Audit Findings
June 30, 2017

Finding Number	Finding Summary	Fully Corrected?	Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2016-001	Material Noncompliance: FTE Reporting	Yes	The School properly reported FTEs based on guidance from the Ohio Department of Education.

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NEWARK DIGITAL ACADEMY

LICKING 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

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov