Lorain Preparatory Academy
Lorain County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016

Dave Yost • Auditor of State

Board of Trustees
Lorain Preparatory Academy
3038 Leavitt Road
Lorain, Ohio 44053

We have reviewed the *Independent Auditor's Report* of the Lorain Preparatory Academy, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 Lorain Preparatory Academy is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

May 19, 2017

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LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO

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Rea & associates a brighter way

February 28, 2017

To the Board of Directors
Lorain Preparatory Academy
Lorain County, Ohio
3038 Leavitt Road
Lorain, Ohio 44053

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Lorain Preparatory Academy, Lorain 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 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 Academy'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 Academy'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 the Academy as of June 30, 2016, and the changes in financial position and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 16 to the financial statements, the Academy has previously suffered recurring losses from operations and has a net position deficit of $2,253,689 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability and related accruals totaling $1,547,833. Note 16 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the Academy's Proportionate Share of the Net Pension Liability,* and *Schedule of the Academy's Contributions* on pages 3-7, 31-32, and 33-34, 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 February 28, 2017 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Cambridge, Ohio

The discussion and analysis of the Lorain Preparatory Academy's (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 financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance. The first year of the Academy's operations was 2007. The School began accepting students and community school foundation revenue in December of 2006.

Financial Highlights

- Net position increased $1,195,002 primarily due to debt forgiveness received from the Academy's management company.
- Enrollment increased from 305 students at June 30, 2015 to 317 at June 30, 2016.
- Total revenue increased from $2,917,462 in fiscal year 2015 to $4,373,847 in fiscal year 2016.
- Operating expenses increased from $2,714,842 in fiscal year 2015 to $3,105,760 in fiscal year 2016.

Overview of the Financial Statements

The financial report consists of three parts: the required supplemental information, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities and deferred outflows of resources and deferred inflows of resources are included on the statement of net position. The statement of net position represents the statement of position of the Academy. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Financial Analysis of the Academy as a Whole

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from governmental-wide financial statements is included in the discussion and analysis.

The following tables represent a summary the Academy's condensed financial information for 2016 derived from the statement of net position and the statement of revenues, expenses and changes in net position.

The following table provides a summary of the Academy's net position for 2016 as compared to 2015:

	2016	2015
Assets:		
Current Assets:		
Cash and Cash Equivalents	$ 86,826	$ 129,720
Accounts Receivable	5,862	-
Intergovernmental Receivable	79,159	77,136
Prepaid Expense	26,542	24,000
Total Assets	198,389	230,856
Noncurrent Assets:		
Capital Assets, net of Accumulated Depreciation	112,352	127,222
Total Noncurrent Assets	112,352	127,222
Total Assets	310,741	358,078
Deferred Outflows of Resources	1,091,205	153,569
Liabilities:		
Current Liabilities:		
Accounts Payable, Trade	61,420	227,269
Accounts Payable, Related Party	126,490	1,624,226
School Fundraiser	660	660
Accrued Expenses	48,427	7,494
Advances Payable	479,600	458,200
Total Current Liabilities	716,597	2,317,848
Noncurrent liabilities:		
Net Pension Liability	2,583,689	1,388,317
Noncurrent Portion of Long-term Debt	300,000	-
Total Noncurrent liabilities	2,883,689	1,388,317
Total Liabilities	3,600,286	3,706,165
Deferred Inflows of Resources	55,349	254,173
Net Position		
Invested in Capital Assets	112,352	127,222
Unrestricted Net Position	(2,366,041)	(3,575,913)
Total Net Position	$ (2,253,689)	$ (3,448,691)

Results of fiscal year 2016 indicate an ending net position deficit of ($2,253,689), a positive increase of $1,195,002 over fiscal year 2015, due to the debt forgiveness of $1,146,873 from the management company. Enrollment at the end of fiscal 2016 was 317 students as compared to 305 at the end of fiscal 2015. Enrollment as of February 2017 is 345. The enrollment capacity for the facility is 350. Lorain Preparatory Academy saw enrollment increases in both fiscal years 2015 and 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 School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the 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 School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

In accordance with GASB 68, the 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.

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

The following table reflects the changes in net position for the fiscal year 2016 as compared to 2015:

	2016	2015
Operating Revenues:		
State Aid	$ 2,583,814	$ 2,436,466
Charge for Services	-	2,070
Miscellaneous	1,117	221
Total Operating Revenues	2,584,931	2,438,757
Operating Expenses:		
Purchased Services	2,925,215	2,515,998
Depreciation	26,869	19,423
General Supplies	119,868	92,224
Other Operating Expenses	33,808	87,197
Total Operating Expenses	3,105,760	2,714,842
Operating Loss	(520,829)	(276,085)
Nonoperating Revenues and Expenses:		
Debt Forgiveness	1,146,873	-
Federal and State Restricted Grants	642,043	478,705
Interest Expense	(73,085)	(115,562)
Net Nonoperating Revenues and Expenses	1,715,831	363,143
Change in Net Position	1,195,002	87,058
Net Position Beginning of Year	(3,448,691)	(3,535,749)
Net Position (Deficit) End of Year	$ (2,253,689)	$ (3,448,691)

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and invoices for payroll of the Academy's staff. The increase in operating revenues and expenses is based on the increase in enrollment. In addition, Accel Schools provided debt forgiveness of $1,146,873. See note 6 for additional detail.

Budget

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

Capital Assets

At the end of fiscal year 2016, the Academy had $112,352 invested in capital assets (net of accumulated depreciation) for computers, leasehold improvements and furniture and equipment. The following table shows fiscal year 2016 compared to 2015:

Capital Assets at June 30 (Net of Depreciation)

	2016	2015	Change
Furniture & Equipment	$53,055	$63,107	$ (10,052)
Leasehold Improvements	11,000	-	11,000
Computer Technology	48,297	64,115	(15,818)
Net Capital Assets	$112,352	$127,222	$ (14,870)

The decrease represents purchases of leasehold improvements less the annual depreciation charge. There were no asset disposals during the year. For further information regarding the Academy's capital assets, refer to Note 5 of the basic financial statements.

Debt

At June 30, 2016, the Academy had $479,600 in advances outstanding, which are due within one year. The Academy also had a Notes Payable to Accel Schools at June 30, 2016 in the amount $300,000.

For further information regarding the Academy's debt, refer to Note 6 and 15 to the basic financial statements.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact the Fiscal Officer of Lorain Preparatory Academy, 4125 Leavitt Rd, Lorain, Ohio 44503.

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LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 86,826
Accounts Receivable	5,862
Intergovernmental Receivable	79,159
Prepaid Expenses	26,542
Total Current Assets	198,389
Noncurrent Assets:	
Capital Assets, net of Accumulated Depreciation	112,352
Total Noncurrent Assets	112,352
Total Assets	310,741
Deferred Outflows of Resources	1,091,205
Liabilities:	
Current Liabilities:	
Accounts Payable, Trade	61,420
Accounts Payable, Related Party	126,490
School Fundraiser	660
Accrued Expenses	48,427
Advances Payable	479,600
Total Current Liabilities	716,597
Noncurrent Liabilities:	
Net Pension Liability	2,583,689
Noncurrent Portion of Long-term Debt	300,000
Total Noncurrent liabilities	2,883,689
Total Liabilities	3,600,286
Deferred Inflows of Resources	55,349
Net Position	
Invested in Capital Assets	112,352
Unrestricted Net Position	(2,366,041)
Total Net Position	$ (2,253,689)

See Accompanying Notes to the Basic Financial Statements

LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Operating Revenues:	
State Aid	$ 2,583,814
Miscellaneous	1,117
Total Operating Revenues	2,584,931
Operating Expenses:	
Purchased Services	2,925,215
Depreciation	26,869
General Supplies	119,868
Other Operating Expenses	33,808
Total Operating Expenses	3,105,760
Operating Loss	(520,829)
Nonoperating Revenues and Expenses:	
Debt Forgiven	1,146,873
Federal and State Restricted Grants	642,043
Interest Expense	(73,085)
Net Nonoperating Revenues and Expenses	1,715,831
Change in Net Position	1,195,002
Net Position Beginning of Year	(3,448,691)
Net Position End of Year	$ (2,253,689)

See Accompanying Notes to the Basic Financial Statements

LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
State Aid Receipts	$ 2,583,814
Charge for Services	1,117
Cash Payments to Suppliers for Goods and Services	(3,204,218)
Net Cash Used For Operating Activities	(619,287)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Short-term Financing Payments	(73,027)
Advances from Charter School Capital	1,900,500
Redemption Payments to Charter School Capital	(1,879,100)
Federal and State Grant Receipts	640,020
Net Cash Provided by Noncapital Financing Activities	588,393
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(12,000)
Net Cash Used for Capital and Related Financing Activities	(12,000)
Net Decrease in Cash and Cash Equivalents	(42,894)
Cash and Cash Equivalents - Beginning of the Year	129,720
Cash and Cash Equivalents - Ending of the Year	$ 86,826
Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating Loss	$ (520,829)
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities	
Depreciation	26,869
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:	
(Increase) in Receivables	(5,862)
(Increase) in Prepaid Expense	(2,542)
(Increase) in Deferred Outflows	(937,638)
(Decrease) in Deferred Inflows	(198,824)
Increase in Net Pension Liability	1,195,372
(Decrease) in Accounts Payable, Trade	(165,851)
(Decrease) in Accounts Payable, Related Party	(50,915)
Increase in Accrued Liabilities	40,933
Net Cash Used For Operating Activities	$ (619,287)

Non-Cash Transaction: During the fiscal year ended June 30, 2016, the Academy negotiated with its new management company Accel Schools to reclassify certain related party accounts payable and long term obligations held by the former management company, Mosaica Education into a single note in the amount of $300,000. Under this agreement, Accel Schools forgave $1,146,873 worth of related party accounts payable and long term obligations.

See Accompanying Notes to the Basic Financial Statements

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Note 1 – Description of the School

The Lorain Preparatory Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades 3-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy. The Academy is a federally recognized 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702.

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2010. This contract was extended for two additional five academic years expiring June 30, 2020. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a Governing Board that consists of five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy contracts with Accel Schools for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (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 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 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.

B. Measurement Focus

The deferred outflows/inflows of resources is accounted for using a flow of economic resources measurement focus. All assets and liabilities, and all deferred inflows and outflows of resources associated with the operation of the Academy 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 net position. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy'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. Revenue resulting from nonexchange transactions, in which Academy 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 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. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents". The Academy had no "Cash and Cash Equivalents" on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2016.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2016, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2016 consisted of computers, leasehold improvements, furniture and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

All capital assets are depreciated over their remaining useful lives. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Furniture & Equipment	5-20 years
Leasehold Improvements	10-20 years
Computer Technology	5 years

H. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. At June 30, 2016, there was no net position restricted by enabling legislation. Net position consists of $112,352 invested in capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

I. 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.

J. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the 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 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position (See Note 9).

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/deletions from their fiduciary net positon have been determined on the same

Note 2 - Summary of Significant Accounting Policies (Continued)

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. Estimates

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

M. Implementation of 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 of the Academy.

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

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

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2016, the book balance was $86,826 and the bank balance of Academy's deposits was $97,248. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 4 – Receivables

At June 30, 2016, the Academy had receivables in the amount of $85,021. The receivables are expected to be collected within one year.

Note 5 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Depreciable Capital Assets:				
Furniture & Equipment	$99,270	$ -	$ -	$99,270
Leasehold Improvements	-	12,000		12,000
Computer Technology	152,279	-	-	152,279
Total Capital Assets	251,549	12,000	-	263,549
Less Accumulated Depreciation:				
Furniture & Equipment	(36,163)	(10,052)	-	(46,215)
Leasehold Improvements	-	(1,000)		(1,000)
Computer Technology	(88,165)	(15,817)	-	(103,982)
Total Accumulated Depreciation	(124,328)	(26,869)	-	(151,197)
Capital Assets, Net	$127,221	($14,869)	$ -	$112,352

Note 6 – Long-Term Obligations

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

	Balance 6/30/2015	Additions	Reductions	Balance 6/30/2016
Net Pension Liability (Note 9):				
STRS	$ 1,270,650	$ 1,086,256	-	$ 2,356,906
SERS	117,667	109,116	-	226,783
Total Net Pension Liability	1,388,317	1,195,372	-	2,583,689
Accel Notes Payable	-	300,000	-	300,000
Total	$ 1,388,317	$ 1,495,372	$ -	$ 2,883,689

No amounts reported are due within one year. During the fiscal year ended June 30, 2016, the Academy negotiated with its new management company Accel Schools to reclassify certain related party accounts payable and long term obligations held by the former management company, Mosaica Education into a single note in the amount of $300,000. Under this agreement, Accel forgave $1,146,873 worth of related party accounts payable and long term obligations.

Note 6 – Long-Term Obligations-(Continued)

	Note Payable - Accel Schools	
	Principal	Interest
2017	$ -	$ 7,500
2018	-	7,500
2019	-	7,500
2020	-	7,500
2021	-	7,500
2022-2026	-	37,500
2027-2030	300,000	30,000
Total	$ 300,000	$105,000

Note 7 – Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the Academy contracted with the Hartford Casualty Insurance Company.

Settled claims have not exceeded this commercial coverage in the past three years and there have been no significant reductions in insurance coverage from the prior year.

General Liability:	
Each Occurrence	$ 1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Business Personal Property	1,000,000
Building	1,370,000
Automobile Liability:	
Combined Single Limit	1,000,000
Excess/Umbrella	
Each Occurrence	6,000,000
Aggregate Limit	6,000,000

Note 8 – Purchased Services

For the year ended June 30, 2016, purchased service expenses were for the following services:

Purchased Services	Amount
Personnel	$1,661,277
Food Service	187,421
Building Services	357,002
Sponsor Fee	75,143
Professional Fees	570,816
Other Services	73,556
Total	$2,925,215

Note 9 - Defined Benefit Pension Plans

A. Net Pension Liability

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

The net pension liability represents the 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.

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

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

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

Note 9 - Defined Benefit Pension Plans

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The Academy's contractually required contribution to SERS was $16,296 for fiscal year 2016.

C. 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.

<u>Note 9 - Defined Benefit Pension Plans</u> (Continued)

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

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.

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

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

Note 9 - Defined Benefit Pension Plans (Continued)

The Academy's contractually required contribution to STRS was $141,463 for fiscal year 2016. There were no contributions to the DC and Combined Plans for fiscal year 2016.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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	$226,783	$2,356,906	$2,583,689
Proportion of the Net Pension Liability	0.00397440%	0.00852806%	
Pension Expense	$28,030	$188,641	$216,671

At June 30, 2016, the Academy 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	$3,120	$101,643	$104,763
Change in proportionate share	72,992	755,691	828,683
Academy contributions subsequent to the measurement date	16,296	141,463	157,759
Total Deferred Outflows of Resources	$92,408	$998,797	$1,091,205
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$ (2,646)	$ 57,995	$ 55,349
Total Deferred Inflows of Resources	($2,646)	$57,995	$55,349

Note 9 - Defined Benefit Pension Plans (Continued)

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

$157,759 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 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:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	$ 23,800	$ 185,907	$ 209,707
2018	23,800	185,907	209,707
2019	23,787	185,909	209,696
2020	7,371	241,616	248,987
Total	$78,758	$799,339	$878,097

E. Actuarial Assumptions - SERS

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

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

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

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

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

Note 9 - Defined Benefit Pension Plans (Continued)

E. Actuarial Assumptions – SERS (Continued)

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

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

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

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

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

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

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.

Note 9 - Defined Benefit Pension Plans (Continued)

E. Actuarial Assumptions – SERS (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$314,467	$226,783	$152,946

F. Actuarial Assumptions - STRS

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

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

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

Actuarial assumptions used in the June 30, 2014, 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 %	

Note 9 - Defined Benefit Pension Plans (Continued)

F. Actuarial Assumptions – STRS (Continued)

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	$3,273,921	$2,356,906	$1,581,434

Note 10 - 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.

Note 10 - Postemployment Benefits (Continued)

A. School Employees Retirement System (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was $23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were $0, $981 and $513, respectively. For fiscal year 2016, 2015 and 2014, 100 percent has been contributed.

B. State Teachers Retirement Systems

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 $95 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Note 11 - 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.

Note 11 – Contingencies (Continued)

B. Ohio Department of Education Enrollment Review

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

Note 12 – Building Leases

In November 2015, the Academy entered into a lease for facilities from Leavitt Road Properties LLC., for an initial term of 15 years. The lease has an annual base rate of $210,000 annually for the first three years. Combined rent expense paid in 2016 including rent under the previous lease that expired in October 2015 was $144,378.

Fiscal Year Ending June 30	Amount
2017	$ 210,000
2018	210,000
2019	228,000
2020	228,000
2021	228,000
2022-2026	1,291,200
2027-2030	1,165,800
Total minimum lease payments	$3,561,000

Note 13 – Related Party Transactions/Management Company

The Academy contracts with Accel Schools for a variety of services including management of personnel and human resources, board relations, financial management, marketing, technology services, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement and budget preparation and accounts payable and payroll preparation.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred on behalf of the Academy by Accel Schools, LLC. These expenses include salaries of Accel Schools, LLC employees working at the Academy, and other costs related to providing educational and administration services. The total expenses billed by Accel Schools, LLC. during fiscal year 2016 were $1,538,254.

Per the management agreement with the Academy, Accel Schools is entitled to a management fee that is equivalent to 12.5% of the Academy's State revenues, plus $20,000 for managing Federal funds. The management fee for fiscal year 2016 was $334,406.

Note 14 – Sponsor

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 1, 2005. Subsequent to June 2010, the contract was extended for two five years through June 30, 2020. As part of this contract, the Sponsor is entitled to 3% of the total state foundation funds. Total amount due and paid for fiscal year 2015 was $75,143.

Note 15 – Advances Payable

The Academy received working capital advances from Charter School Capital through a receivables purchase agreement. As the Academy receives its monthly State funding, these advances are repaid, however the Academy may elect to receive future advances from Charter School Capital by entering into additional agreements. The total amount of advances outstanding at June 30, 2016 was $479,600 and are due within three months of issuance. Total principal paid during the fiscal year was $1,879,100 and interest totaled $73,027. A summary of debt obligations for the Academy at June 30, 2016, is as follows:

	Principal Outstanding 6/30/2015	Additions	Reductions	Principal Outstanding 6/30/2016
Charter School Capital	$ 458,200	$ 1,900,500	$ (1,879,100)	$ 479,600

Note 16 – Management's Plan

For fiscal year 2016, the Academy had an increase in net position of $1,195,002, and a cumulative net position deficit of $2,253,689. The Academy's fiscal 2016 enrollment actually increased from fiscal year 2015 levels to 317 students at fiscal year-end. The Academy's management is projecting a breakeven level due to increased enrollment.

Over time, management believes that the anticipated increase in enrollment should allow the school to reduce its operating losses and net position deficit. The current student capacity enrollment as of February 2017 is 345 Management plans to continue efforts to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which may increase enrollment, reduce future deficits and may lead to operating surpluses in future years.

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LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO

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

	2015	2014	2013
Academy's Proportion of the Net Pension Liability	0.00397440%	0.00232500%	0.00232500%
Academy's Proportionate Share of the Net Pension Liability	$ 226,783	$ 117,667	$ 138,260
Academy's Covered-Employee Payroll	$ 119,649	$ 68,232	$ 39,645
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.54%	172.45%	348.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO

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

	2015	2014	2013
Academy's Proportion of the Net Pension Liability	0.00852806%	0.00522397%	0.00523397%
Academy's Proportionate Share of the Net Pension Liability	$ 2,356,906	$ 1,270,650	$ 1,513,590
Academy's Covered-Employee Payroll	$ 889,757	$ 574,800	$ 470,431
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	264.89%	221.06%	321.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

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

LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
SCHOOL EMPLOYEE'S RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 16,296	$ 15,769	$ 9,457	$ 5,487	$ 5,494
Contributions in Relation to the Contractually Required Contribution	$ (16,296)	$ (15,769)	$ (9,457)	$ (5,487)	$ (5,494)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered-Employee Payroll	$ 116,400	$119,649	$ 68,232	$ 39,645	$ 40,847
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%	13.45%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 4,921	$ 5,503	$ 4,244	$ 3,864	$ 2,653
Contributions in Relation to the Contractually Required Contribution	$ (4,921)	$ (5,503)	$ (4,244)	$ (3,864)	$ (2,653)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered-Employee Payroll	$ 39,148	$ 40,642	$ 43,130	$ 39,348	$ 27,016
Contributions as a Percentage of Covered-Employee Payroll	12.57%	13.54%	9.84%	9.82%	9.82%

LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
STATE TEACHER'S RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 141,463	$ 124,566	$ 74,724	$ 61,156	$ 66,340
Contributions in Relation to the Contractually Required Contribution	$ (141,463)	$ (124,566)	$ (74,724)	$ (61,156)	$ (66,340)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered-Employee Payroll	$1,010,450	$ 889,757	$ 574,800	$ 470,431	$ 510,308
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%	13.00%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 65,820	$ 72,837	$ 70,895	$ 46,647	$ 21,274
Contributions in Relation to the Contractually Required Contribution	$ (65,820)	$ (72,837)	$ (70,895)	$ (46,647)	$ (21,274)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered-Employee Payroll	$ 506,308	$ 560,285	$ 545,346	$ 358,823	$ 163,646
Contributions as a Percentage of Covered-Employee Payroll	13.00%	13.00%	13.00%	13.00%	13.00%

February 28, 2017

To the Board of Directors
Lorain Preparatory Academy
Lorain County, Ohio
3038 Leavitt Road
Lorain, Ohio 44053

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 the Lorain Preparatory Academy, Lorain 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 February 28, 2017, in which we noted the Academy has suffered recurring losses from operations and has a net position deficit of $2,253,689, including the net effect of net pension liability and related accruals totaling $1,547,833, that raises substantial doubt about its ability to continue as a going concern.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy'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 Academy’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy’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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

Cambridge, Ohio

LORAIN PREPARATORY ACADEMY

LORAIN 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
JUNE 1, 2017