AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

EAST PREPARATORY ACADEMY | Big Dreams. One Small School.

East Preparatory Academy

Cleveland, Ohio

Dave Yost • Auditor of State

Board of Directors
East Preparatory Academy
4129 Superior Avenue
Cleveland, Ohio 44103

We have reviewed the *Independent Auditor's Report* of the East Preparatory Academy, Cuyahoga 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 East Preparatory Academy is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

April 13, 2018

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EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO

AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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January 31, 2018

To the Board of Directors
East Preparatory Academy
Cuyahoga County, Ohio
4129 Superior Avenue
Cleveland, OH 44103

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the East Preparatory Academy, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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 School'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 School'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.

Opinion

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

Emphasis of Matters

As disclosed in Note 16 to the financial statements, the School has suffered recurring losses from operations and has a net position deficiency of $1,323,874 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 $778,732. 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.

As described in Note 17, the School restated the beginning net position balance to account for the reallocation of certain management company employees reported under one employer code within the state teacher's retirement system, and their effect on the net pension liability, deferred outflows of resources, and deferred inflows of resources. 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, the Schedule of the School's Proportionate Share of the Net Pension Liability, and Schedule of the School Contributions on pages 3-7, 32, and 33, 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 January 31, 2018, on our consideration of the School'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 the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Cambridge, Ohio

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

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net position decreased $528,476 which represents a 66.4 percent decrease from 2016. This decrease is partly due to changes in GASB 68 pension accruals.

- Total assets increased $109,196, which represents a 141.8 percent increase from 2016. This was primarily due to an increase in cash and receivables from the previous year based on operations.

- Liabilities increased $1,115,720, which represents a 60.2 increase from 2016. The increase in liabilities is a direct result of changes in the net pension liability related to GASB 68.

Using this Financial Report

This report consists of three parts, the required supplemental information, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

The School uses enterprise presentation for all of its activities.

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2017. This statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net position for fiscal years 2017 and 2016.

(Table 1)
Statement of Net Position

	2017	Restated 2016
Assets		
Current Assets	$ 171,194	$ 61,998
Non-Current Assets,	15,000	15,000
Total Assets	186,194	76,998
Deferred Outflows		
Pension Requirements	1,458,576	1,065,216
Liabilities		
Current Liabilities	731,336	568,804
Long Term Liabilities	2,237,308	1,284,120
Total Liabilities	2,968,644	1,852,924
Deferred Inflows		
Pension Requirements	-	84,688
Net Position		
Unrestricted	$(1,323,874)	$(795,398)

In total, net position decreased $528,476 which represents a 66.4 percent decrease from 2016. This decrease is due to changes in net pension liability. Total assets increased $109,196, which represents a 141.8 percent increase from 2016. This was primarily due to a decrease in cash from the previous year from operations. Liabilities increased $1,115,720 which represents a 60.2 percent increase from 2016. The increase in liabilities is a direct result of changes in the net pension liability.

Statement of Revenues, Expenses, and Changes in Net Position

Table 2 shows the changes in net position for fiscal years 2017 and 2016, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

(Table 2)
Change in Net Position

	2017	Restated 2016
Operating Revenue		
State Aid	$1,656,886	$1,487,616
Casino Aid	9,756	9,245
Facilities Aid	41,016	28,095
Non-Operating Revenue		
Grants	395,406	440,120
Interest Income	57	84
Miscellaneous	7,748	3,532
Total Revenues	2,110,869	1,968,692
Operating Expenses		
Purchased Services: Salaries and Benefits	1,394,118	1,074,178
Purchased Services: Management Fees	301,429	287,549
Sponsorship Fees	48,936	44,520
Legal	11,918	11,449
Auditing and Accounting	33,969	34,738
Other Professional Services	246,095	208,897
Other Purchased Services	459,700	524,259
Supplies	56,359	69,613
Furniture, Fixtures and Equipment	5,217	25,098
Other Operating Expenses	27,843	34,902
Non-Operating Expenses		
Interest and Fiscal Charges	53,761	28,882
Total Expenses	2,639,345	2,344,085
Change in Net Position	$ (528,476)	$ (375,393)

The primary reason for the increase in overall revenues from 2016 was the increase in state aid due to increased enrollment from 188 to 205. Likewise, the School's expenses increased due to the increase in enrollment. The increase in total expenses significantly exceeded the increase in revenue due pension expense recognized under GASB 68 in the current year as "Purchased Services: Salaries and Benefits" (see Notes to the Basic Financial Statements, Note 8).

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

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

Under the standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources. The contractually required contribution is no longer a component of pension expense, under GASB 68, the 2017 Statements report pensions expense of $587,150.

Budgeting Highlights

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

Capital Assets

At the end of fiscal year 2017, the School has $0 invested in capital assets.

Debt

At June 30, 2017, the School had $329,200 in debt outstanding. See Note 15 for additional details.

Table 4 summarizes debt outstanding.

(Table 4)

Outstanding Debt, at Year End

	2016	2017
Notes Payable	$ 171,121	$329,200

Current Financial Issues

The East Preparatory Academy received revenue for 205 students in 2017 (an increase of 18 students from 2016) and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged $8,330 in fiscal year 2017. The School receives additional revenues from grant subsidies.

On July 1, 2013, the School contracted with the Saint Aloysius Orphanage (SAO) as its sponsor. State law allows sponsors to assess the schools up to 3 percent of State revenues as an oversight fee, a cost that was not incurred through the sponsorship by ODE. SAO charged 3 percent of the State revenues for fiscal year 2017.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Brian G. Adams, Fiscal Officer for the East Preparatory Academy, 65 E. Wilson Bridge Road, Worthington, OH 43085 or e-mail at badams@ocscltd.com.

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EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 77,077
State Funding Receivable	21,239
Grants Receivable	64,026
Receivable from School	8,852
Total Current Assets	171,194
Noncurrent Assets:	
Leasehold Deposits	15,000
Total Noncurrent Assets	15,000
Total Assets	186,194
DEFERRED OUTFLOWS OF RESOURCES	
Pension Requirements	1,458,576
LIABILITIES	
Current Liabilities:	
Accounts Payable	42,456
Continuing Fees Payable	353,537
Retirement System Payable	6,143
Notes Payable	329,200
Total Current Liabilities	731,336
Long-Term Liabilities:	
Net Pension Liability	2,237,308
Total Liabilities	2,968,644
NET POSITION	
Unrestricted	(1,323,874)
Total Net Position	$(1,323,874)

See accompanying notes to the basic financial statements

EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO

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

OPERATING REVENUES	
State Aid	$ 1,656,886
Casino Aid	9,756
Facilities Aid	41,016
Total Operating Revenues	1,707,658
OPERATING EXPENSES	
Purchased Services: Salaries and Benefits	1,394,118
Purchased Services: Management Fees	301,429
Sponsorship Fees	48,936
Legal	11,918
Auditing and Accounting	33,969
Other Professional Services	246,095
Other Purchased Services	459,700
Supplies	56,359
Furniture, Fixtures, and Equipment	5,217
Other Operating Expenses	27,843
Total Operating Expenses	2,585,584
Operating Loss	(877,926)
NON-OPERATING REVENUE/ EXPENSES	
Grants	395,406
Interest and Fiscal Charges	(53,761)
Miscellaneous	7,748
Interest Income	57
Total Non-Operating Revenue/ EXPENSES	349,450
Change in Net Position	(528,476)
Net Position Beginning of Year, Restated See Note 17	(795,398)
Net Position End of Year	$(1,323,874)

See accompanying notes to the basic financial statements

EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO

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

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from State of Ohio	$ 1,707,658
Cash Payments to Suppliers for Goods and Services	(2,127,040)
Net Cash Used For Operating Activities	(419,382)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Cash Received from Issuance of Notes Payable	1,281,100
Cash Payments for Interest and Fiscal Charges	(53,761)
Cash Payments for Principal Payments	(1,123,021)
Net Cash Provided by Capital Financing Activities	104,318
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Received from Grants	344,491
Miscellaneous Cash Receipts	7,748
Net Cash Provided by Noncapital Financing Activities	352,239
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash Received from Interest on Investments	57
Net Increase in Cash and Cash Equivalents	37,232
Cash and Cash Equivalents Beginning of Year	39,845
Cash and Cash Equivalents End of Year	$ 77,077
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating Loss	$ (877,926)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources:	
State Funding Receivable	(21,239)
Receivable from School	190
Accounts Payable	(66,291)
State Funding Payable	(2,984)
Continuing Fees Payable	83,170
Retirement System Payable	(9,442)
Net Pension Liability	953,188
Deferred Outflows of Resources	(393,360)
Deferred Inflows of Resources	(84,688)
Net Cash Used For Operating Activities	$ (419,382)

See accompanying notes to the basic financial statements

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

East Preparatory Academy (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with Midwest Education Partners, LLC, a Florida limited liability company, for most of its functions. Midwest Education Partners, LLC, a Florida limited liability company, d/b/a Cambridge Education Group (CEG), which is the sole member of East Preparatory Academy and is the entity with which the School's board interacts regarding day-to-day operations (see Note 7).

The School signed a contract with Saint Aloysius Orphanage (Sponsor), to operate for the period of July 1, 2013 through June 30, 2015, and renews annually for one year terms through June 30, 2020.

The School operates under a self-appointing, five-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, 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 facility is staffed with teaching personnel employed by CEG, who provide services to 205 students. At June 30, 2017, five board members were also on the Board of Capella High School in the City of Maple Heights, Ohio at June 30, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2017. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. Cash and Cash Equivalents

All cash received by the School is maintained in a demand deposit account. For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Position, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program, which are reflected under "State Aid", "Casino Aid", and "Facilities Aid" on the Statement of Revenues, Expenses and Changes in Net Position. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues (Continued)

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2017 school year totaled $2,103,064.

F. Capital Assets and Depreciation

For purposes of recording capital assets, the Board has a capitalization threshold of $5,000. As of June 30, 2017, the school had no capital assets.

G. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets deferred outflows of resources and liabilities deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Net Position

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

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily State Aid, Facility Aid, and Casino Aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Pensions

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

K. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position (see Note 8).

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all School deposits was $77,077, and its bank balance of $87,609. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, all of the bank balance was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. State law does not require security for public deposits and investments to be maintained in the School's name. During 2017, the School and public depositories complied with the provisions of these statutes.

4. RECEIVABLES

The School has recorded "Grants Funding Receivable" in the amount of $64,026 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2017. Receivable from School of $8,852 was for advances to cover board expenses for another school. State Funding Receivable of $21,239 is the result of the fiscal year 2017 FTE audit from ODE.

5. PAYABLES

Accounts Payable consists of obligations totaling $42,456 at June 30, 2017, incurred during the normal course of conducting operations. Retirement System payable consists of obligations totaling $6,143 at June 30, 2017, resulting from employer share of retirement contributions not yet paid to the boards. Continuing Fees Payable in the amount of $353,537 has been recorded by the School for any management fees unpaid to Cambridge as of June 30, 2017 (see Note 7).

6. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with CEG, CEG has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (see Note 7). There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

Director and Officer - Coverage has been purchased by the School with a $1,000,000 aggregate limit and a $2,500 deductible.

7. AGREEMENT WITH MIDWEST EDUCATION PARTNERS

Effective July 1, 2013, the School entered into a multi-year Management Agreement (Agreement) with Midwest Education Partners, LLC, a Florida limited liability company dba Cambridge Education Group, LLC (CEG), which is an educational consulting and management company. The Agreement's term will run through three academic school years ending June 30, 2016, unless terminated by either party. Thereafter, the agreement will automatically renew for additional successive three (3) year terms. Substantially most functions of the School have been contracted to CEG. CEG is responsible and accountable to the School's Board of Directors for the administration and day-to-day operations. As part of the terms of this agreement, the "Continuing Fee" percentage of the School is 16 percent. "Continuing Fees" are defined in the Agreement as the Schools Qualified Gross Revenues, "…the revenue per student received by the School from the State of Ohio Department of Education pursuant to Title 33 and other provisions of the Ohio Revised Code…". With regard to grant funding, the agreement reads as follows: "Federal Title Programs, lunch programs revenue, and other such federal, state and local government grant funding designated to compensate the school for the education of its students shall be maintained by the School." Qualified Gross Revenue does not include facilities funding from any source, charitable contributions, proceeds from fundraisers, casino revenue, or fees charged to students. The continuing fee is paid to CEG based on the previous month's qualified gross revenues.

The School shall be responsible for paying fees to its Authorizer pursuant to the Charter plus its own directors and officers insurance, Facility payments, the School's other contractual obligations, if any, and its own legal ,accounting, auditing and professional fees. CEG acknowledges that pursuant to Ohio law, Company's State Teachers Retirement System ("STRS") and State Employees Retirement System ("SERS") contributions on behalf of the CEG employees employed at the School will be withheld by the State of Ohio.

The School had purchased service expenses for the year ended June 30, 2017, to CEG of $1,695,547, including $301,429 in management fees, and payables to CEG at June 30, 2017, aggregating $353,537. CEG is responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, maintenance, capital, and insurance.

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

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

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 retirement system payable.

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

Plan Description – School 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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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 30 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, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The School's contractually required contribution to SERS was $26,067 for fiscal year 2017.

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

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

The School's contractually required contribution to STRS was $85,943 for fiscal year 2017.

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

The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 1,854,438	$ 382,870	$ 2,237,308
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00554010%	0.00523110%	
Prior Measurement Date	0.00393131%	0.00346330%	
Change in Proportionate Share	0.00160879%	0.00176780%	
Pension Expense	$ 475,914	$ 111,238	$ 587,150

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

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 74,928	$ 5,164	$ 80,092
Net Difference between Projected and Actual Earnings on Pension Plan Investments	153,967	31,581	185,548
Changes of Assumptions	0	25,558	25,558
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	893,069	162,299	1,055,368
School Contributions Subsequent to the Measurement Date	85,943	26,067	112,010
Total Deferred Outflows of Resources	$ 1,207,907	$ 250,669	$ 1,458,576

$112,010 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	$ 343,926	$ 86,605	$ 430,531
2019	343,924	85,354	429,278
2020	283,583	43,564	327,147
2021	150,531	9,079	159,610
	$ 1,121,964	$ 224,602	$ 1,346,566

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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

E. Actuarial Assumptions – SERS (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 Increase, including Inflation	3.5 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

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

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

E. Actuarial Assumptions – SERS (Continued)

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

F. 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.

G. Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's Proportionate Share of the Net Pension Liability	$ 506,894	$ 382,870	$ 279,054

H. 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:

8. DEFINED BENEFIT PENSION PLANS (Continued)

H. Actuarial Assumptions – STRS (Continued)

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

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.

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

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

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

I. 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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

J. Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's Proportionate Share of the Net Pension Liability	$ 2,464,398	$ 1,854,438	$ 1,339,902

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

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description – On behalf of the School, CEG 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.

9. 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 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School's surcharge obligation was $ 2,751.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The School's contributions for health care (including surcharge) for the fiscal year ended June 30, 2015, was $797. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

Plan Description – On behalf of the School, CEG 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 2017, 2016, and 2015, STRS did not allocate any employer contributions to post-employment health care. Therefore, the School did not contribute to health care in the past three fiscal years.

10. CONTINGENCIES

A. Grants

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

B. Full Time Equivalency

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 did not perform such a review on the School for fiscal year.

As of the date of this report, all ODE adjustments through fiscal year 2017 have been completed.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2017 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

C. Litigation

The School is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

11. FEDERAL TAX STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization.

12. SPONSORSHIP FEES

The School contracted with Saint Aloysius Orphanage as its sponsor effective July 1, 2013. SAO was paid three percent (3%) for the fiscal year ended June 30, 2015, The Charter was renewed in June 18, 2015 and shall be for a term of one (1) year commencing on the date of execution of this Charter and will automatically renew for one (1) year terms through June 30, 2020. Total fees for fiscal year 2017 were $48,936. The Sponsor provides oversight, monitoring, and technical assistance for the School.

13. DEPOSITS AND OPERATING LEASES – LESSEE DISCLOSURE

During fiscal year 2013, the school entered into a lease agreement for the facilities located at a new location known as 4129 Superior Ave. Cleveland, Ohio 44103. The term of the lease is five years with a monthly payment of $5,902 effective July 1, 2013. The School paid a security deposit of $15,000 to secure the facility. Future minimum leases are shown below:

Fiscal Year	Amount
2018	70,824
Total	$ 70,824

14. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the School implemented GASB Statement No. 77 “Tax Abatement Disclosures” which improves disclosure of tax abatement information, such as how the tax abatements affect their financial statements and operations and the government’s ability to raise resources in the future, by reporting (1) the government’s own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented GASB Statement No. 78 “Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans” which amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) 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 (3) has no predominant state or local governmental employer. The implementation of this statement did not have an effect on the financial statements of the School

For fiscal year 2017, the School implemented GASB Statement No. 80 “Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14” which amends the blending requirements for the financial statement presentation of component units of all state and local governments to enhanced the comparability of financial statements among governments. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented GASB Statement No. 82 “Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73” which 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 plan member contribution requirements. The implementation of this statement was incorporated in the School’s financial statements, but did not have an effect on beginning net position.

15. SHORT TERM OBLIGATIONS

A summary of short-term obligation for the school at June 30, 2017, is as follows:

Charter School Capital - In February 2014, the school entered into an agreement with Charter School Capital to borrow against its future foundation payments. The net additional amount borrowed was $ $158,079, with a balance due $329,200 at June 30, 2017. The terms of the loan are amounts borrowed are to be repaid over the course of the next three months, therefore the entire amount is due within one year. Total interest paid was $28,882. The imputed interest rate is 18% per annum.

	Principal Outstanding 6/30/2016	Additions	Reductions	Principal Outstanding 6/30/2017
Charter School Capital	$ 171,121	$1,281,100	$(1,123,021)	$ 329,200

16. MANAGEMENT'S PLAN REGARDING DEFICIT NET POSITION

For fiscal year 2016, the School had an operating loss of $877,926, a decrease in net position of $528,476, and a cumulative net position deficit of $1,323,874.

Management continues to take steps towards increasing student enrollment and containing costs, which would provide additional State funding and reduce expenses respectively, enabling the School to return to financial stability.

17. RESTATEMENT OF NET POSITION

Certain Cambridge Education Group employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Cambridge Education Group. Therefore, it has been determined the net pension liability, deferred outflows of resources, deferred inflows of resources and the related pension expense should be allocated to each of the schools. This allocation had the following effect on beginning net position:

Previously Reported Net Position	$(729,590)
Adjustments:	
Deferred Outflows - Pension	40,239
Net Pension Liability	(39,296)
Deferred Inflows – Pension	(66,751)
Restated Net Position, July 1, 2016	$(795,398)

18. OTHER PURCHASED SERVICES

For the period July 1, 2016 through June 30, 2017, other purchased service expenses were for the following services:

	2017
Property Services	$ 74,605
Travel and Professional Development	6,645
Communications	21,854
Utilities	26,069
Trade Services	135,739
Transportation	194,788
Total	$ 459,700

19. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2017, Cambridge Education Group, LLC and its affiliates incurred the following expenses on behalf of the School

East Preparatory Academy	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Vocational Instruction (1300 Function codes)	Other Instruction (1400 and 1900 Function Codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
Direct expenses:							
Salaries & wages (100 object codes)	$ 422,926	$ 35,220	$ -	$ 109,650	$ 179,773	$ -	$ 747,569
Employees' benefits (200 object codes)	41,842	4,488	-	10,036	10,208	-	66,574
Transportation (480 object codes)	-	-	-	-	-	55	55
Supplies (500 object codes)	771	-	-	-	-	588	1,359
Other direct costs (All other object codes)	1,187	-	-	-	-	14,106	15,293
Overhead	-	-	-	-	72,512	33,340	105,852
Total expenses	**$ 467,079**	**$ 39,708**	**$ -**	**$ 119,686**	**$ 262,493**	**$ 48,873**	**$ 937,839**

Note to the Schedule of Management Company Expenses: Cambridge Education Group charges expenses benefiting more than one school (i.e. overhead) are pro-rated based on full time equivalent (FTE) head count as of June 30, 2017 by each school it manages. Employee Benefits do not include pension expenses. Under management agreement with the school, the school is responsible for pension expenses for direct school staff.

East Preparatory Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

	2017	2016	2015
State Teachers Retirement System (STRS)			
School's Proportion of the Net Pension Liability	0.00554010%	0.00393131%	0.00206084%
School's Proportionate Share of the Net Pension Liability	$ 1,854,438	$ 1,086,499	$ 501,268
School's Covered Payroll	$ 517,736	$ 338,143	$ 252,838
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	358.18%	321.31%	198.26%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%
School Employees Retirement System (SERS)			
School's Proportion of the Net Pension Liability	0.00523110%	0.00346330%	0.00255500%
School's Proportionate Share of the Net Pension Liability	$ 382,870	$ 197,619	$ 129,307
School's Covered Payroll	$ 161,407	$ 87,686	$ 256,241
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	237.21%	225.37%	50.46%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%

(1) Information prior to 2015 is not available.
(2) Certain Cambridge Education Group employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Cambridge Education Group. Therefore, it has been determined the payroll related to these employees should be allocated to each of the Schools. Fiscal years 2016 and 2017 amounts have been updated, however, information was not available to update fiscal years 2015 and prior.

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

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

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

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

East Preparatory Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the School Contributions
Last Four Fiscal Years (1)

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 85,943	$ 72,483	$ 47,340	$ 32,869
Contributions in Relation to the Contractually Required Contribution	(85,943)	(72,483)	(47,340)	(32,869)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 613,879	$ 517,736	$ 338,143	$ 252,838
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%
School Employees Retirement System (SERS)				
Contractually Required Contribution	$ 26,067	$ 22,597	$ 11,557	$ 35,515
Contributions in Relation to the Contractually Required Contribution	(26,067)	(22,597)	(11,557)	(35,515)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 186,193	$ 161,407	$ 87,686	$ 256,241
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

(1) Information prior to 2014 is not available.

(2) Certain Cambridge Education Group employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Cambridge Education Group. Therefore, it has been determined the contributions related to these employees should be allocated to each of the schools. Fiscal year 2017 and 2016 amounts have been updated, however information was not available to update fiscal year 2015 and prior.

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January 31, 2018

To the Board of Directors
East Preparatory Academy
Cuyahoga County, Ohio
4129 Superior Avenue
Cleveland, OH 44103

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 East Preparatory Academy, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated January 31, 2018, in which we noted that the School had a deficit net position balance of $1,323,874, including the net effect of net pension liability and related accruals totaling $778,732 that raises substantial doubt about its ability to continue as a going concern. We also noted the School restated the beginning net position balance to account for a reallocation of management company employees to all schools who are reported under one employer code within the state teacher's retirement system.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School'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

Dave Yost • Auditor of State

EAST PREPARATORY ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2018

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