

**Northeast Ohio College Preparatory School  
Cuyahoga County, Ohio**

Audited Financial Statements  
For the Year Ended June 30, 2017





# Dave Yost • Auditor of State

Board of Trustees  
Northeast Ohio College Preparatory School  
2357 Tremont Avenue  
Cleveland, Ohio 44113

We have reviewed the *Independent Auditor's Report* of the Northeast Ohio College Preparatory School, 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 Northeast Ohio College Preparatory School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

April 12, 2018

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**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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February 21, 2018

To the Board of Trustees  
Northeast Ohio College Preparatory School  
2357 Tremont Avenue  
Cleveland, Ohio 44113

## **Independent Auditor's Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Northeast Ohio College Preparatory School, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***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 Matter***

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As disclosed in Note 17 to the financial statements, the School has suffered recurring losses from operations and has a net position deficit of \$6,733,011 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 \$6,273,504. Note 17 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 School's Proportionate Share of the Net Pension Liability*, and *Schedule of the School's Contributions* on pages 5-10, 36-37, and 38-39, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The *Schedule of Expenditures of Federal Awards*, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.



The *Schedule of Expenditures of Federal Awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Expenditures of Federal Awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 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.

*Kea & Associates, Inc.*

Medina, Ohio

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**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

The discussion and analysis of the Northeast Ohio College Preparatory School (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 notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

**FINANCIAL HIGHLIGHTS**

Key Financial Highlights for the School for the 2016-17 school year are as follows:

- Total Assets decreased \$239,844.
- Total Liabilities increased \$2,107,804.
- Total Net Position decreased \$2,205,943.
- Total Operating and Non-Operating revenues were \$7,134,665. Total Operating and Non-Operating expenses were \$9,340,608.

**USING THIS ANNUAL REPORT**

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

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how the School did financially during fiscal year 2017. These statements include all assets and deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's Net Position and changes in Net Position. This change in Net Position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors. The School uses enterprise presentation for all of its activities.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**USING THIS ANNUAL REPORT (continued)**

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

Table 1 provides a summary of the School's Net Position for fiscal year 2017 compared to fiscal year 2016.

**Table 1  
Statement of Net Position**

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current Assets	\$ 711,758	\$ 930,239
Non-Current Assets	1,172,237	1,179,580
Capital Assets, Net	-	14,020
Total Assets	<u>1,883,995</u>	<u>2,123,839</u>
<b>Deferred Outflows of Resources</b>	<u>4,790,292</u>	<u>4,991,532</u>
<b>Liabilities</b>		
Current Liabilities	2,343,502	2,071,168
Net Pension Liability	10,849,735	9,014,265
Total Liabilities	<u>13,193,237</u>	<u>11,085,433</u>
<b>Deferred Inflows of Resources</b>	<u>214,061</u>	<u>557,006</u>
<b>Net Position</b>		
Investment in Capital Assets	-	14,020
Unrestricted	<u>(6,733,011)</u>	<u>(4,541,088)</u>
Total Net Position	<u>\$ (6,733,011)</u>	<u>\$ (4,527,068)</u>

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.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**USING THIS ANNUAL REPORT (continued)**

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 School. 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.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**USING THIS ANNUAL REPORT (continued)**

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources.

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

Over time, Net Position can serve as a useful indicator of a government's financial position. At June 30, 2017, the School's net position totaled \$(6,733,011).

Current assets represent cash and cash equivalents and intergovernmental receivables, accounts receivable, advances receivable and notes receivable. Current liabilities represent accounts payable, accrued expenses, advances payable, withholdings payable, and line of credit payable at fiscal year-end.

**Statement of Revenues, Expenses and Changes in Net Position** - Table 2 shows the change 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.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**USING THIS ANNUAL REPORT (continued)**

**Table 2  
Change in Net Position**

	<u>2017</u>	<u>2016</u>
<b>Operating Revenue</b>		
State Aid	\$ 4,887,332	\$ 4,698,420
Other	8,111	43,036
Total Operating Revenues	<u>4,895,443</u>	<u>4,741,456</u>
<b>Operating Expenses</b>		
Salaries	2,524,365	2,629,483
Fringe Benefits	1,412,326	628,540
Fringe Benefits – GASB 68	1,693,764	1,084,463
Purchased Services	3,152,946	2,922,181
Materials and Supplies	273,401	284,684
Depreciation	14,020	48,475
Other	15,772	-
Total Operating Expenses	<u>9,086,594</u>	<u>7,597,826</u>
Operating (Loss)	(4,191,151)	(2,856,370)
<b>Non-Operating Revenues (Expenses)</b>		
Federal Grants	1,005,178	1,046,888
Other Intergovernmental Revenue	453,177	505,901
Debt Forgiveness	780,867	735,000
Interest Expense	(254,014)	(263,604)
Total Non-Operating Revenues (Expenses)	<u>1,985,208</u>	<u>2,024,185</u>
<b>Change in Net Position</b>	(2,205,943)	(832,185)
<b>Net Position, Beginning of the Year</b>	<u>(4,527,068)</u>	<u>(3,694,883)</u>
<b>Net Position, End of Year</b>	<u>\$ (6,733,011)</u>	<u>\$ (4,527,068)</u>

Due to the change in in proportionate share of the Net Pension Liability and the allocation attributed to the School from changes in the STRS and SERS deferred inflows of resources and the deferred outflows of resources the School had a considerable increase to the fiscal year's pension expense related to GASB 68.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**BUDGET**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its Sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, annually.

**CAPITAL ASSETS**

At fiscal year-end, the net book value of the School's capital assets was zero. For more information on capital assets, see Note 5 of the Basic Financial Statements.

**WORKING CAPITAL ADVANCES**

During the fiscal year, the School received working capital monies from Charter School Capital through a receivables purchase agreement. As the School receives monthly State funding, these advances are repaid, however, the School may elect to receive additional advances from Charter School Capital by entering into additional agreements. For more information in advances see Note 6 of the Basic Financial Statements.

**CURRENT FINANCIAL ISSUES**

The School is a community School and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue. In 2017, the State raised the base per pupil funding to \$6,000, which is up from \$5,900 in the previous year. Additionally, community schools in Ohio will be allocated a small amount of facilities funding which is also per pupil based. This amount is projected to be approximately \$200 per pupil.

The full-time equivalent enrollment of the School for the year ended June 30, 2017 was 550 compared to a figure of 552 at the end of fiscal year 2016.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of the students served.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact the School's Fiscal Officer, C. David Massa, CPA, of Massa Financial Solutions, LLC, 2357 Tremont Avenue, Cleveland, Ohio 44113.



**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**Assets:**

***Current Assets:***

Cash and Cash Equivalents	\$	44,914
Accounts Receivable		478,995
Intergovernmental Receivable		43,583
Notes Receivable - Current Portion		142,920
Other Assets		1,346
<b>Total Current Assets</b>		<u>711,758</u>

***Noncurrent Assets:***

Notes Receivable, net of current portion		1,172,237
		<u>1,172,237</u>

<b>Total Assets</b>		<u>1,883,995</u>
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<b>Deferred Outflows of Resources</b>		<u>4,790,292</u>
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**Liabilities:**

***Current Liabilities:***

Accounts Payable, Trade		732,738
Accrued Expenses		22,195
Withholdings Payable		21,295
Line of Credit Payable		15,074
Advances Payable		1,552,200
<b>Total Current Liabilities</b>		<u>2,343,502</u>

***Noncurrent Liabilities:***

Net Pension Liability		10,849,735
<b>Total Noncurrent Liabilities</b>		<u>10,849,735</u>

<b>Total Liabilities</b>		13,193,237
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<b>Deferred Inflows of Resources</b>		<u>214,061</u>
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**Net Position:**

Unrestricted		(6,733,011)
<b>Total Net Position</b>		<u>\$ (6,733,011)</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**Statement of Revenues,  
Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2017**

**Operating Revenues:**

State Aid	\$ 4,887,332
Miscellaneous	8,111
<b>Total Operating Revenues</b>	4,895,443

**Operating Expenses:**

Salaries	2,524,365
Fringe Benefits	1,412,326
Fringe Benefits - GASB 68	1,693,764
Purchased Services	3,152,946
Depreciation	14,020
Supplies	273,401
Other Operating Expenses	15,772
<b>Total Operating Expenses</b>	9,086,594

**Operating Loss** (4,191,151)

**Non-Operating Revenues and Expenses:**

Federal Grants	1,005,178
Debt Forgiveness	780,867
Intergovernmental Revenues	453,177
Interest Expense	(254,014)
<b>Net Non-operating Revenues and Expenses</b>	1,985,208

**Change in Net Position** (2,205,943)

**Net Position Beginning of Year** (4,527,068)

**Net Position End of Year** \$ (6,733,011)

See Accompanying Notes to the Basic Financial Statements

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

State Aid Receipts	\$ 4,854,772
Other Operating Receipts	2,111
Cash Payments to Suppliers for Goods and Services	(2,860,156)
Cash Payments to Employees for Services	(2,524,365)
Cash Payments for Employee Benefits	(717,268)
Net Cash Used For Operating Activities	<u>(1,244,906)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Intergovernmental Revenues	453,177
Federal and State Grant Receipts	1,011,643
Charter School Capital Advances	3,755,100
Charter School Capital Cost of Funding	(254,014)
Charter School Capital Redemptions	(3,682,200)
Note Receivable Payments Received	7,343
Line of Credit Principal Payment	(1,229)
Net Cash Provided By Noncapital Financing Activities	<u>1,289,820</u>

**Net Increase in Cash and Cash Equivalents** 44,914

<b>Cash and Cash Equivalents - Beginning of the Year</b>	-
<b>Cash and Cash Equivalents - Ending of the Year</b>	<u>\$ 44,914</u>

(Continued)

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**Reconciliation of Operating Loss to Net Cash Used For Operating Activities**

Operating Loss	\$ (4,191,151)
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**Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities**

Depreciation	14,020
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Changes in Assets, Liabilities, and Deferred Inflows and Outflows:

(Increase)/Decrease in Accounts Receivables	276,836
(Increase)/ Decrease in Deferred Outflows	201,239
Increase/ (Decrease) in Deferred Inflows	(342,945)
Increase/ (Decrease) in Net Pension Liability	1,835,470
(Increase)/Decrease in Other Assets	(1,346)
Increase/(Decrease) in Accounts Payable, Trade	985,126
Increase/(Decrease) in Accrued Expenses	2,023
Increase/(Decrease) in Withholdings Payable	(24,178)

<b>Net Cash Used For Operating Activities</b>	<b><u>\$ (1,244,906)</u></b>
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**Non-Cash Transaction:** During the fiscal year ended June 30, 2017, the School received a one-time debt forgiveness in the amount of \$522,658 from I CAN Schools and \$258,209 from other vendors. This forgiveness was applied against open obligations of the School that were owed to I CAN Schools and other vendors.

See Accompanying Notes to the Basic Financial Statements

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 1 - DESCRIPTION OF THE ENTITY**

The Northeast Ohio College Preparatory School, (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The School operates on a foundation, which fosters character building for all students, parents and staff members. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Ohio Council of Community Schools ("OCCS") (the Sponsor) for a five-year period commencing on July 1, 2015. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Basis of Presentation*** - The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Change in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes Net Position, financial position and cash flows.

The Government Accounting Standards Board identifies the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Measurement Focus and Basis of Accounting** - The accounting and financial reporting treatment is determined by measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. Under this measurement focus, all assets, all deferred outflows of resources, all liabilities, and all deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total Net Position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**Budgetary Process** - Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided for in the School’s sponsorship agreement. The contract between the School and its Sponsor requires a detailed budget for each year of the contract.

**Cash and Cash Equivalents** - Cash received by the School is reflected as “Cash and Cash Equivalents” on the Statement of Net Position. The School did not have any investments during the period ended June 30, 2017.

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

**Capital Assets and Depreciation** - Capital assets are capitalized at cost. Donated Capital Assets are recorded at their acquisition values as of the date received. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from Net Position. Capital assets were \$0, as of June 30, 2017, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the asset which are as follows:

<b><u>Asset Class</u></b>	<b><u>Useful Life</u></b>
Computers & Software	3 years
Furniture, Fixtures, & Equipment	5 years
Textbooks	3 years

The School’s policy for asset capitalization threshold is \$5,000. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompany statement of Net Position.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Intergovernmental Revenues*** - The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in various federal programs passed through the Ohio Department of Education.

Also, during the fiscal year, the School received a pro-rata share of property tax distributions from the Cleveland Municipal School District (CMSD) as part of a partnership agreement executed between the School and CMSD.

Under the above programs the School recorded \$4,887,332 this fiscal year from the Foundation Program and Casino Tax Revenues, \$1,005,178 from Federal Grants and \$453,177 of CMSD property tax distributions.

***Compensated Absences*** - Vacation is taken in a manner which corresponds with the school calendar; therefore, the School does not accrue vacation time as a liability. Sick/personal leave benefits are earned by full-time employees at the rate of eight days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

***Accrued Liabilities*** - Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of Accounts Payable, Accrued Expenses, Line of Credit Payable, Advances Payable, and Withholdings Payable and totaled \$2,434,502 at June 30, 2017.

***Exchange and Non-Exchange Transactions*** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***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 future periods 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 10.

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 future periods and will not be recognized until that time. These amounts have been recorded as a deferred inflow on the statement of net position. 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 10)

***Net Position*** - Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net Position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available. Net Position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

***Operating and Non-Operating Revenues and Expenses*** - Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

Non-operating revenues are those revenues that are not generated directly from the primary activities of the School. Various federal and state grants, interest earnings, if any, and other miscellaneous revenues comprise the non-operating revenues of the School. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any comprise the non-operating expenses.

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



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

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

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

**NOTE 3 - CASH AND CASH EQUIVALENTS**

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

The School maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2017, the book amount of the School's deposits was \$44,914 and the bank balance was \$154,816.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 3 - CASH AND CASH EQUIVALENTS (continued)**

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2017, none of the bank balance was exposed to custodial credit risk.

**NOTE 4 - RECEIVABLES**

***Accounts Receivable*** - The School has accounts receivables totaling \$478,995 at June 30, 2017. These receivables represented reimbursements due to the School, but not received as of June 30, 2017.

***Intergovernmental Receivable*** - The School had intergovernmental receivables of \$43,583 at June 30, 2017. These receivables represented monies due to the School from the Foundation Program and Medicaid, but not received as of June 30, 2017.

***Notes Receivable*** - During the fiscal year ending 2016, the School converted amounts owed from other community schools managed by I CAN Schools into promissory notes. The first note is with Lake Erie Preparatory in the amount of \$187,000. The note began on June 30, 2016 and matures on June 30, 2026. The annual interest rate is 3.5%. The second note with Akron Preparatory School in the amount of \$555,500. The note began on June 30, 2016 and matures on June 30, 2026. The annual interest rate is 3.5%. The third note is with Ohio College Preparatory School in the amount of \$105,000. The note began on June 30, 2016 and matures on June 30, 2026. The annual interest rate is 3.5%. The fourth note is with Canton College Preparatory School in the amount of \$475,000. The note began on June 30, 2016 and matures on June 30, 2026. The annual interest rate is 3.5%.

	<b>Balance</b>			<b>Balance</b>	<b>Due</b>
	<b>06/30/16</b>	<b>Additions</b>	<b>Reductions</b>	<b>06/30/17</b>	<b>Within</b>
					<b>One Year</b>
Lake Erie Preparatory School	\$ 187,000	\$ -	\$ (1,850)	\$ 185,150	\$ 15,898
Akron Preparatory School	555,500	-	(5,493)	550,007	47,228
Ohio College Preparatory	105,000		-	105,000	39,410
Canton College Preparatory	475,000	-	-	475,000	40,384
<b>Total Notes Receivable</b>	<b>\$ 1,322,500</b>	<b>\$ -</b>	<b>\$ (7,343)</b>	<b>\$1,315,157</b>	<b>\$ 142,920</b>

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 5 - CAPITAL ASSETS**

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

	<b>Balance 06/30/16</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 06/30/17</b>
<b>Capital Assets:</b>				
Computers & Software	\$ 609,119	\$ -	\$ -	\$ 609,119
Furniture, Fixtures, & Equipment	148,297	-	-	148,297
Textbooks	78,167	-	-	78,167
<b>Total Capital Assets</b>	<b>835,583</b>	<b>-</b>	<b>-</b>	<b>835,583</b>
<b>Less Accumulated Depreciation:</b>				
Computers & Software	(609,119)	-	-	(609,119)
Furniture, Fixtures, & Equipment	(134,277)	(14,020)	-	(148,297)
Textbooks	(78,167)	-	-	(78,167)
<b>Total Accumulated Depreciation</b>	<b>(821,563)</b>	<b>(14,020)</b>	<b>-</b>	<b>(835,583)</b>
<b>Capital Assets, Net</b>	<b>\$ 14,020</b>	<b>\$ (14,020)</b>	<b>\$ -</b>	<b>\$ -</b>

**NOTE 6 - ADVANCES PAYABLE**

During the fiscal year ending 2017, the School received working capital advances from Charter School Capital through a receivables purchase agreement. As the School receives its monthly State funding, these advances are repaid, however, the School may elect to receive future advances from Charter School Capital by entering into additional agreements.

In addition, the school had \$16,516 that was outstanding at the beginning of 2017 from the prior management company. This amount was written off during 2017.

The total amount of advances payable at June 30, 2017 was \$1,552,200. The School paid \$254,014 in cost of funding charges during the fiscal year 2017. The activity for the year is reflected as follows:

<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2017</b>
<u>\$ 1,495,816</u>	<u>\$ 3,755,100</u>	<u>\$ (3,698,716)</u>	<u>\$ 1,552,200</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - LINE OF CREDIT PAYABLE**

The School has a line of credit agreement with US bank of \$30,000. The total amount borrowed against the line at June 30, 2017 was \$15,074. The line bears interest at the 16.25% annual percentage rate. The line is reviewed annually and is due on demand. Payments made during the year totaled \$1,229.

**NOTE 8 - LONG-TERM OBLIGATIONS**

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

	<u>Balance</u> <u>06/30/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/17</u>
Net Pension Liability (Note 11):				
STRS	\$ 6,660,576	\$1,041,772	\$ -	\$ 7,702,348
SERS	2,353,689	793,698	-	3,147,387
Total Net Pension Liability	<u>9,014,265</u>	<u>1,835,470</u>	<u>-</u>	<u>10,849,735</u>
Total Long-Term Obligations	<u>\$ 9,014,265</u>	<u>\$1,835,470</u>	<u>\$ -</u>	<u>\$ 10,849,735</u>

**NOTE 9 - RISK MANAGEMENT**

**Property & Liability** - The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2015, the School contracted with Cincinnati Insurance Company for general liability insurance with a \$1,000,000 each occurrence/ \$2,000,000 annual aggregate, as well as, an umbrella policy with a \$10,000,000 aggregate limit. The School also had a \$1,000,000 School Leaders policy in place through National Union Fire Insurance. There were no settlements in excess of insurance coverage over the past 3 years, nor has insurance coverage significantly reduced from the prior year.

**Workers' Compensation** - The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**Employee Medical and Dental Benefits** - The School provides medical, vision, and dental insurance benefits through Aetna to all full-time employees. During the School year, the School paid 90% of the monthly premiums for all employees.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 10 - DEFINED BENEFIT PENSIONS PLANS**

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

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

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

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 withholding payable on the accrual basis of accounting.

**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](http://www.ohsers.org) under Employers/Audit Resources.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 10 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

Age and service requirements for retirement are as follows:

	Eligible to Retire before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or 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 \$134,547 for fiscal year 2017.

**State Teachers Retirement System (STRS)**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 10 - DEFINED BENEFIT PENSIONS PLANS (continued)**

**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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 10 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

The School’s contractually required contribution to STRS was \$315,641 for fiscal year 2017.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** - The net pension liability was measured as of July 1 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer’s share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 7,702,348	\$ 3,147,387	\$ 10,849,735
Proportion of the Net Pension Liability:			
Current Measurement Date	0.02301062%	0.04300253%	
Prior Measurement Date	<u>0.02410015%</u>	<u>0.04124867%</u>	
Change in Proportionate Share	<u>-0.00108953%</u>	<u>0.00175386%</u>	
Pension Expense	\$ 1,024,323	\$ 1,119,629	\$ 2,143,952

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.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - DEFINED BENEFIT PENSIONS PLANS (continued)**

**State Teachers Retirement System (STRS) (continued)**

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 311,211	\$ 42,451	\$ 353,662
Net Difference between Projected and Actual Earnings on Pension Plan Investments	639,503	259,615	899,118
Changes of Assumptions	-	210,105	210,105
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	1,203,492	1,673,727	2,877,219
School Contributions Subsequent to the Measurement Date	<u>315,641</u>	<u>134,547</u>	<u>450,188</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>\$ 2,469,847</u></b>	<b><u>\$ 2,320,445</u></b>	<b><u>\$ 4,790,292</u></b>
<b>Deferred Inflows of Resources</b>			
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	<u>\$ 214,061</u>	<u>\$ -</u>	<u>\$ 214,061</u>

\$450,188 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:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 611,171	\$ 916,991	\$ 1,528,162
2019	611,170	906,371	1,517,541
2020	517,578	287,906	805,484
2021	<u>200,226</u>	<u>74,630</u>	<u>274,856</u>
	<b><u>\$ 1,940,145</u></b>	<b><u>\$ 2,185,898</u></b>	<b><u>\$ 4,126,043</u></b>

**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.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 10 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

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

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

The long-term return expectation for the Pension Plan Investments has been determined 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.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 10 - DEFINED BENEFIT PENSIONS PLANS (continued)**

**Actuarial Assumptions – SERS (continued)**

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

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

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

**Sensitivity of the 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 School’s proportionate share of 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	\$ 4,166,946	\$ 3,147,387	\$ 2,293,976

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 10 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

Inflation	2.75 percent
Projected Salary 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 no set back from age 90 and above.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
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	<u>100.00 %</u>	<u>7.61 %</u>

\*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.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 10 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

***Sensitivity of the 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 as of June 30, 2016, 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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School's Proportionate Share of the Net Pension Liability	\$ 10,235,795	\$ 7,702,348	\$ 5,565,237

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

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

**School Employees Retirement System (SERS)**

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

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)**

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

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

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 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 \$21,373.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The School's contributions for health care for the fiscal year ended June 30, 2015, was \$19,094. The full amount has been contributed for fiscal year 2015.

**State Teachers Retirement Systems (STRS)**

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

**Funding Policy** – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School did not contribute to health care in the last three fiscal years.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 12 - CONTINGENCIES**

***Grants*** - The School received financial assistance from federal and state agencies in the form of grants. Amount received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amount which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

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

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the School for fiscal year 2017.

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. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

**NOTE 13 - SPONSOR CONTRACT**

The School contracted with Ohio Council of Community Schools as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a 2.25 percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2017, the total sponsorship fees paid totaled \$105,876.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 14 - MANAGEMENT CONTRACT AND DEBT FORGIVENESS**

The School entered into an agreement with I CAN Schools, a local nonprofit management company, to provide legal, financial, and other management support services for fiscal year 2015. The agreement was for a period of five years beginning July 1, 2012. Management fees are calculated as 18% of the total revenues received from the State of Ohio. The total amount due from the School for the fiscal year ending June 30, 2017 was \$1,136,363 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Changes in Net Position.

The School terminated their management agreement with ICAN Schools on March 2, 2017 and entered into a new agreement with Accel Schools effective May 1, 2017 through June 30, 2027. Management fees are to be calculated as 18% of the total revenues received from the State of Ohio. \$165,190 was accrued under this new agreement as of June 30, 2017 included in accounts payable.

At the end of the fiscal year, I CAN Schools agreed to do a one-time forgiveness in the amount of \$522,658 and \$258,209 from other vendors. This forgiveness was applied against open obligations of the School that were owed to I CAN Schools and other vendors.

**NOTE 15 - PURCHASED SERVICES**

For the period of July 1, 2016 through June 30, 2017, the School made the following purchased services commitments.

Professional and Technical Services	\$ 1,646,333
Property Services	437,697
Utilities	149,022
Communications	55,230
Travel and Meetings	2,481
Contractual Trade Services	321,241
Pupil Transportation	540,942
	<u>\$ 3,152,946</u>

**NOTE 16 - LEASE OBLIGATIONS**

On May 27, 2010, the School entered into an operating lease with the Roman Catholic Diocese of Cleveland for space located at St. John Cantius Parish. The term of the lease is for a period of five years. Base rent expense for the fiscal year ended 2017 was \$132,000 and each year on the anniversary of the lease the rent shall automatically increase 3% of the current rental amount.

On August 27, 2010, the School entered into an additional lease with the Roman Catholic Diocese of Cleveland for more space located on the same St. John Cantius Parish campus. The term of the lease was for a period of one year but can be automatically renewed for up to four one-year periods. Base rent expense for the fiscal year ended 2017 was \$98,880.

The future lease obligations for fiscal year 2018 are \$98,880 for Building One and \$132,000 for Building Two.



**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE – 17 MANAGEMENT PLAN**

For fiscal year 2017, the School had a net position deficit of \$(6,733,011). The School's net deficit in fiscal year 2017 increased from the \$(4,527,068) net deficit in fiscal 2016. Enrollment decreased in fiscal year 2017 to 550, down from 552 in fiscal year 2016. The School's ability to maintain a stable administrative and instructional team along with active advertising via print, radio, mailings and through referrals of current parents is anticipated to help produce the likelihood of future enrollment growth leading to surpluses and provide an opportunity for the school to recover from its prior deficits.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
School's Proportion of the Net Pension Liability	0.04300253%	0.04124867%	0.00844086%	0.00844086%
School's Proportionate Share of the Net Pension Liability	\$ 3,147,387	\$ 2,353,689	\$ 427,187	\$ 501,951
School's Covered-Employee Payroll	\$ 2,313,529	\$ 2,141,032	\$ 1,034,271	\$ 402,189
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	136.04%	109.93%	41.30%	124.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available

Amounts presented as of the School's measurement date which is the prior fiscal year end.

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%

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO  
LAST FOUR FISCAL YEARS (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's Proportion of the Net Pension Liability	0.02301062%	0.02410015%	0.02103651%	0.02103651%
School's Proportionate Share of the Net Pension Liability	\$ 7,702,348	\$ 6,660,576	\$ 5,116,807	\$ 6,095,107
School's Covered-Employee Payroll	\$ 2,717,336	\$ 2,419,979	\$ 2,103,292	\$ 1,505,600
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	283.45%	275.23%	243.28%	404.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available

Amounts presented as of the School's measurement date which is the prior fiscal year end.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO  
LAST SEVEN FISCAL YEARS (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 134,547	\$ 323,894	\$ 282,188	\$ 143,350	\$ 55,663	\$ 30,193	\$ 16,639
Contributions in Relation to the Contractually Required Contribution	<u>(134,547)</u>	<u>(323,894)</u>	<u>(282,188)</u>	<u>(143,350)</u>	<u>(55,663)</u>	<u>(30,193)</u>	<u>(16,639)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 961,050	\$ 2,313,529	\$ 2,141,032	\$ 1,034,271	\$ 402,189	\$ 224,483	\$ 132,371
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%

(1) Information prior to fiscal year 2011 is unavailable

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO  
LAST SEVEN FISCAL YEARS (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 315,641	\$ 380,427	\$ 338,797	\$ 273,428	\$ 195,728	\$ 171,826	\$ 84,323
Contributions in Relation to the Contractually Required Contribution	<u>(315,641)</u>	<u>(380,427)</u>	<u>(338,797)</u>	<u>(273,428)</u>	<u>(195,728)</u>	<u>(171,826)</u>	<u>(84,323)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 2,254,579	\$ 2,717,336	\$ 2,419,979	\$ 2,103,292	\$ 1,505,600	\$ 1,321,738	\$ 648,638
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%

(1) Information prior to fiscal year 2011 is unavailable

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February 21, 2018

To the Board of Trustees  
Northeast Ohio College Preparatory School  
2357 Tremont Avenue  
Cleveland, Ohio 44113

**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 Northeast Ohio College Preparatory School, 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 February 21, 2018, in which we noted the School has suffered recurring losses from operations and has a net position deficit of \$6,733,011, including the net effect of net pension liability and related accruals totaling \$6,273,504, 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 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.

*Hea & Associates, Inc.*

Medina, Ohio



February 21, 2018

To the Board of Trustees  
Northeast Ohio College Preparatory School  
Cuyahoga County, Ohio  
2357 Tremont Avenue  
Cleveland, OH 44113

**Independent Auditor's Report on Compliance for Each Major Federal Program and  
Report on Internal Control over Compliance Required by the Uniform Guidance**

**Report on Compliance for Each Major Federal Program**

We have audited the Northeast Ohio College Preparatory School's, Cuyahoga County, Ohio (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Kea & Associates, Inc.*

Medina, Ohio

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
 CUYAHOGA COUNTY, OHIO  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Total Provided to Subrecipients	Disbursements
<b>U. S. Department of Education</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2017	\$ 0	\$ 532,209
<i>Special Education Cluster:</i>				
IDEA Part B	84.027	2017	0	123,455
<i>Total Special Education Cluster</i>			<u>0</u>	<u>123,455</u>
Improving Teacher Quality	84.367	2017	0	10,174
<i>Total U.S. Department of Education</i>			<u>0</u>	<u>665,838</u>
<b>U. S. Department of Agriculture</b>				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program	10.553	2017	0	92,106
National School Lunch Program	10.555	2017	0	215,317
<i>Total Child Nutrition Cluster</i>			<u>0</u>	<u>307,423</u>
<i>Total U.S. Department of Agriculture</i>			<u>0</u>	<u>307,423</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 0</u>	<u>\$ 973,261</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL**  
**CUYAHOGA COUNTY**

*Notes to the Schedule of Expenditures of Federal Awards*  
*2 CFR §200.510(b)(6)*  
*For the Year Ended June 30, 2017*

**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Northeast Ohio College Preparatory School, Cuyahoga County, Ohio (the School) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**NOTE C – TRANSFERS**

The School generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, the School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During fiscal year 2017, the School did not make any transfers.

**NOTE D – CHILD NUTRITION CLUSTER**

The School commingles cash receipts from the U.S. Department of Agriculture with similar State Grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL  
 CUYAHOGA COUNTY, OHIO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 2 CFR §200.515  
 JUNE 30, 2017**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d) (1) (iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d) (1) (vii)	Major Programs (list):  Title I	CFDA # 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$750,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None were noted.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None were noted.

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# Dave Yost • Auditor of State

**NORTHEAST OHIO COLLEGE PREPARATORY SCHOOL**

**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**