



OHIO AUDITOR OF STATE  
**KEITH FABER**





**EUCLID PREPARATORY ACADEMY  
CUYAHOGA COUNTY  
JUNE 30, 2018**

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# OHIO AUDITOR OF STATE KEITH FABER



## INDEPENDENT AUDITOR'S REPORT

Euclid Preparatory Academy  
Cuyahoga County  
23001 Euclid Avenue  
Euclid, Ohio 44117

To the Board of Directors:

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

We have audited the accompanying financial statements of the Euclid Preparatory Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Euclid Preparatory Academy, Cuyahoga County as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State

Columbus, Ohio

May 21, 2019

## **EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The discussion and analysis of the Euclid Preparatory School (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2018. 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. However, because this is the first year of financial reporting for the School comparative prior year fiscal information does not exist. Subsequent reports will include the comparative information.

### **FINANCIAL HIGHLIGHTS**

Key Financial Highlights for the School for the 2017-18 school year are as follows:

- Total Assets and Deferred Outflows increased \$176,387.
- Total Liabilities increased \$780,267.
- Total Net Position was \$(603,880).
- Total Operating and Non-Operating revenues were \$1,300,571. Total Operating expenses were \$1,904,451.

### **USING THIS ANNUAL REPORT**

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

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how the School did financially during fiscal year 2018. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net position and changes in that 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.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**USING THIS ANNUAL REPORT (Continued)**

***Statement of Net Position*** - The Statement of Net Position answers the question of how the School did financially during 2018. 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 2018. This is the School's first year of operation. Therefore, comparative information is not available.

**Table 1  
Statement of Net Position**

	<b>2018</b>
<b>Assets</b>	
Current Assets	\$ 61,897
Capital Assets, Net	19,704
Total Assets	81,601
<b>Deferred Outflows of Resources</b>	94,786
<b>Liabilities</b>	
Current Liabilities	780,267
Total Liabilities	780,267
<b>Net Position</b>	
Investment in Capital Assets	19,704
Unrestricted	(623,584)
Total Net Position	\$ (603,880)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the School's net position totaled \$(603,880).

Current assets represent cash and cash equivalents, intergovernmental receivable, other assets. Current liabilities represent accounts payable and accrued expenses. As no prior year information is available, given that this was the initial year of operation for the school, all amounts reflected above changed 100%.

## EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

#### USING THIS ANNUAL REPORT (Continued)

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the School adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**USING THIS ANNUAL REPORT (Continued)**

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows. Due to this being the first year of operations for the School there are only deferred outflows.

EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**USING THIS ANNUAL REPORT (Continued)**

***Statement of Revenues, Expenses and Change in Net Position*** - Table 2 shows the change in Net Position for fiscal year 2018 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. Since this is the first year of operations, comparative information will be provided in future years.

**Table 2**  
**Change in Net Position**

	<b>2018</b>
<b>Operating Revenues</b>	
State Aid	\$ 1,183,823
Other	397
Total Operating Revenues	<u>1,184,220</u>
<b>Operating Expenses</b>	
Purchased Services	1,774,700
Materials and Supplies	109,566
Depreciation	4,926
Other	15,259
Total Operating Expenses	<u>1,904,451</u>
<b>Operating (Loss)</b>	(720,231)
<b>Non-Operating Revenues</b>	
Federal Grants	116,351
Total Non-Operating Revenues	<u>116,351</u>
<b>Change in Net Position</b>	\$ (603,880)

## **EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

#### **BUDGETING HIGHLIGHTS**

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

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, semi-annually.

#### **CAPITAL ASSETS**

At fiscal year end, the School's net capital asset balance was \$19,704. This balance represents \$24,630 of current year additions offset by current year depreciation of \$4,926. For more information on capital assets, see Note 5 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 2018, the State raised the base per pupil funding to \$6,010, which is up from \$6,000 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 \$200 per pupil.

The full-time equivalent enrollment of the School for the year ended June 30, 2018 was 152.

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

#### **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, 23001 Euclid Ave, Cleveland, OH 44117.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**Statement of Net Position  
At June 30, 2018**

**Assets:**

***Current Assets:***

Cash and Cash Equivalents	\$ 7,162
Intergovernmental Receivable	19,131
Other Assets	<u>35,604</u>
<b>Total Current Assets</b>	<u><u>61,897</u></u>

***Noncurrent Assets:***

Capital Assets, net of Accumulated Depreciation	<u>19,704</u>
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<b>Total Assets</b>	<u><u>81,601</u></u>
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***Deferred Outflows of Resources:***

Pension	92,875
OPEB	<u>1,911</u>
<b>Total Deferred Outflows of Resources</b>	<u><u>94,786</u></u>

**Liabilities:**

***Current Liabilities:***

Accounts Payable, Trade	670,747
Accounts Payable, Related Party	87,846
Accrued Expenses	<u>21,674</u>
<b>Total Current Liabilities</b>	<u><u>780,267</u></u>

<b>Total Liabilities</b>	<u><u>780,267</u></u>
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**Net Position:**

Invested in Capital Assets	19,704
Unrestricted Net Position	<u>(623,584)</u>
<b>Total Net Position</b>	<u><u>\$ (603,880)</u></u>

See Accompanying Notes to the Basic Financial Statements

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**Statement of Revenues,  
Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2018**

<b>Operating Revenues:</b>	
State Aid	\$ 1,183,823
Miscellaneous	397
<b>Total Operating Revenues</b>	<u>1,184,220</u>
<b>Operating Expenses:</b>	
Purchased Services	1,774,700
Depreciation	4,926
Supplies	109,566
Other Operating Expenses	15,259
<b>Total Operating Expenses</b>	<u>1,904,451</u>
<b>Operating Loss</b>	(720,231)
<b>Non-Operating Revenues and Expenses:</b>	
Federal Grants	116,351
<b>Net Nonoperating Revenues and Expenses</b>	<u>116,351</u>
<b>Change in Net Position</b>	(603,880)
<b>Net Position Beginning of Year</b>	-
<b>Net Position End of Year</b>	<u>\$ (603,880)</u>

See Accompanying Notes to the Basic Financial Statements

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

State Aid Receipts	\$ 1,174,783
Other Operating Receipts	397
Cash Payments to Suppliers for Goods and Services	(417,365)
Cash Payments to Employees for Services	(694,895)
Cash Payments for Employee Benefits	(137,388)
Net Cash Used For Operating Activities	<u>(74,468)</u>

**CASH FLOWS FROM INVESTMENT ACTIVITIES**

Purchase of Assets	<u>(24,630)</u>
Net Cash Used for Investment Activities	<u>(24,630)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Federal and State Grant Receipts	<u>106,260</u>
Net Cash Provided By Noncapital Financing Activities	<u>106,260</u>

**Net Increase in Cash and Cash Equivalents** 7,162

**Cash and Cash Equivalents - Beginning of the Year** -

**Cash and Cash Equivalents - Ending of the Year** \$ 7,162

See Accompanying Notes to the Basic Financial Statements

(Continued)

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2018  
(Continued)**

<b>Reconciliation of Operating Loss to Net Cash Used For Operating Activities</b>	
Operating Loss	\$ (720,231)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities</b>	
Depreciation	4,926
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:	
(Increase)/Decrease in Receivables	(9,040)
(Increase)/ Decrease in Deferred Outflows	(94,786)
(Increase)/Decrease in Prepaid Expense	(35,604)
Increase/(Decrease) in Accounts Payable	670,747
Increase/(Decrease) in Accrued Expenses	21,674
Increase/(Decrease) in Accrued Wages and Benefits	60,075
Increase/(Decrease) in Withholding Payable	27,771
<b>Net Cash Used For Operating Activities</b>	<b><u><u>\$ (74,468)</u></u></b>

See Accompanying Notes to the Basic Financial Statements

## **EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

#### **NOTE 1 - DESCRIPTION OF THE ENTITY**

Euclid Preparatory School, (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to improve the lives of its students by providing authentic learning experiences in a collaborative, nurturing environment that will build a foundation for student's success in school, at future work and in 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 St. Aloysius Orphanage (the Sponsor) for a one-year period commencing on July 1, 2016. However, the contract shall automatically renew for successive one-year periods through June 30, 2021. The School did not initially open in the first year of the contract due to projected low enrollment. Operations for the School commenced in August 2017. 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 in 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.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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.

**Budgetary Process** - Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

**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, 2018.

**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 fair market 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 \$19,704, as of June 30, 2018, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets which are as follows:

<b><u>Asset Class</u></b>	<b><u>Useful Life</u></b>
Computers & Technology Assets	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 accompanying statement of net position.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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.

Under the above programs the School recorded \$1,183,823 this fiscal year from the State Foundation Program and Casino Tax Revenues and \$116,351 from Federal Grants.

**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 thirteen 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 and Accrued Expenses totaling \$780,267 at June 30, 2018.

**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.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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

**Net Position** - Net position represent the difference between assets and liabilities. 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 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. There were no non-operating expenses reported at June 30, 2018.

**Deferred Inflows and Deferred Outflows of Resource** - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 7 and 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension and OPEB. 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 and OPEB plans are reported on the government-wide statement of net position. Due to this being the first year of operations for the School there are only deferred outflows. (See Notes 7 and 8)

**Pensions /Other Postemployment Benefits (OPEB)** - For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value. Due to this being the first year of operations for the School there are only deferred outflows.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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, 2018, the book amount of the School’s deposits was \$7,162 and the bank balance was \$31,408.

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, 2018, none of the bank balance was exposed to custodial credit risk.

**NOTE 4 - RECEIVABLES**

The School had Intergovernmental receivables totaling \$19,131 at June 30, 2018. These receivables represented monies due from State Aid and Federal grants, but not received as of June 30, 2018. Amounts are expected be collected within one year.

**NOTE 5 - CAPITAL ASSETS**

For the period ending June 30, 2018, the School’s capital assets consisted of the following:

	Balance 6/30/2017	Additions	Deletions	Balance 06/30/18
Capital Assets:				
Furniture & Equipment	\$ -	\$ 24,630	\$ -	\$ 24,630
Total Capital Assets	<u>-</u>	<u>24,630</u>	<u>-</u>	<u>24,630</u>
Less Accumulated Depreciation:				
Furniture & Equipment	-	(4,926)	-	(4,926)
Total Accumulated Depreciation	<u>-</u>	<u>(4,926)</u>	<u>-</u>	<u>(4,926)</u>
 Total Capital Assets, Net	 <u>\$ -</u>	 <u>\$ 19,704</u>	 <u>\$ -</u>	 <u>\$ 19,704</u>

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 6 - 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, 2018, the School contracted with Cincinnati Insurance Company for nonprofits and maintained general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate.

***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 United Healthcare to all full-time employees. During the School year, the School paid 80% of the monthly premiums for all employees.

**NOTE 7 - DEFINED BENEFIT PENSIONS PLANS**

***Net Pension Liability*** – For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68" were effective. The net pension liability is not reported in the accompanying financial statements due to the School not being in operation during the measurement period. The plan description and actuarial assumptions have been disclosed below.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT PENSIONS PLANS (continued)**

of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

***Plan Description - School Employees Retirement System (SERS)***

***Plan Description*** – School non-teaching employees participate in SERS, a cost-sharing, multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information, and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary. One year after an effective benefit date, a benefit recipient is entitled to a 2.5 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT PENSIONS PLANS (continued)**

***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, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. 0.5 percent to the Health Care Fund.

The School's contractually required contribution to SERS was \$15,419 for fiscal year 2018.

***Plan Description - 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).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT PENSIONS PLANS (continued)**

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12.0 of the 14.0 percent member rates goes to the DC Plan and the remaining 2.0 percent goes 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 services. 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 in the GASB 68 schedules of employer allocation and pension amounts by employer.

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

***Funding Policy*** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, 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 2018 contribution rates were equal to the statutory maximum rates.

The School's contractually required contributions to STRS was \$77,456 for fiscal year 2018.

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources (with the exception of deferred outflows of resources related to School contributions subsequent to the measurement date) and Deferred Inflows of Resources Related to Pensions are not applicable to the School at June 30, 2018 due to the School not being in operation during the measurement period.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 7 - DEFINED BENEFIT PENSIONS PLANS (continued)**

At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Academy contributions subsequent to the measurement date	\$ 15,419	\$ 77,456	\$ 92,875
Total Deferred Outflows of Resources	<u>\$ 15,419</u>	<u>\$ 77,456</u>	<u>\$ 92,875</u>

\$92,875 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 year ending June 30, 2019.

***Actuarial Assumptions - SERS***

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT PENSIONS PLANS (continued)**

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, 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	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

The most recent experience study was completed June 30, 2015.

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT PENSIONS PLANS (continued)**

**Actuarial Assumptions – STRS**

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Projected salary increases	2.50 percent at age 65 to 12.50 percent at age 20
Investment Rate of Return	7.45 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 paid on fifth anniversary of retirement date.

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	<u>2.25</u>
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 2.25% and does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 7 - DEFINED BENEFIT PENSIONS PLANS (continued)**

***Discount Rate*** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

***Benefit Term Changes Since the Prior Measurement Date***

Effective July 1, 2017, the COLA was reduced to zero.

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

***Net OPEB Liability*** – For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions" were effective. The net OPEB liability is not reported in the accompanying financial statements due to the School not being in operation during the measurement period. The plan description and actuarial assumptions have been disclosed below.

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)**

The net OPEB liability represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the School does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

***Plan Description - 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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)**

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, 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 pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. 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 2018, the School's surcharge obligation was \$1,340.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$1,911 for fiscal year 2018.

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

**Plan Description** – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. 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 to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)**

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources (with the exception of deferred outflows of resources related to School contributions subsequent to the measurement date) and Deferred Inflows of Resources Related to Pensions are not applicable to the School at June 30, 2018 due to the School not being in operation during the measurement period. At June 30, 2018, the School reported deferred outflows of resources related to pensions from the following sources:

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Academy contributions subsequent to the measurement date	<u>\$ 1,911</u>	<u>\$ -</u>	<u>\$ 1,911</u>
Total Deferred Outflows of Resources	<u><u>\$ 1,911</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,911</u></u>

\$1,911 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

***Actuarial Assumptions - SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)**

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)**

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>AssetClass</u>	<u>Target Allocation</u>	<u>Long-Term Expected RealRateofReturn</u>
Cash	1.00 %	0.50 %
USStocks	22.50	4.75
Non-USStocks	22.50	7.00
FixedIncome	19.00	1.50
PrivateEquity	10.00	8.00
RealAssets	15.00	5.00
Multi-AsseStrategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)**

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also, since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements

## EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

#### NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)

were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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 Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 9 - CONTINGENCIES**

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

***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 performed such a review on the School for fiscal year 2018.

As of the date of this report, the ODE has made two FTE adjustments, one in September 2018 related to fiscal year 2018, and one in December 2018. For the Academy, the first adjustment was a positive adjustment and it has been accrued on the Statement of Net Position. The second adjustment was not a material adjustment and was recorded during the current fiscal year.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. These adjustments were recorded as part of the current fiscal year.

**NOTE 10 - SPONSOR CONTRACT**

The School contracted with St. Aloysius Orphanage as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2018, the total sponsorship fees paid totaled \$34,247.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 11 - PURCHASED SERVICES**

For the period of July 1, 2017 through June 30, 2018, the School made the following purchased services commitments.

<u>Purchased Services</u>	<u>Amount</u>
Personnel Services	\$ 825,342
Professional Services	357,688
Property Services	230,309
Utilities	52,631
Travel & Meetings	481
Communications	64,121
Contractual Trade	86,094
Pupil Transportation	158,034
Total	<u>\$ 1,774,700</u>

**NOTE 12 - LEASE OBLIGATIONS**

In July 2017, the School began utilizing the facility located at 23001 Euclid Avenue in Euclid, Ohio. The lease is with HBP Euclid Corporation and extends through June 30, 2031. The total rent expense for fiscal year 2018 was \$123,032. Future minimum payments due under the lease with HBP Euclid Corporation as of June 30, 2018 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY2019	\$ 150,000
FY2020	180,600
FY2021	184,212
FY2022	187,896
FY2023	191,654
FY2024 - 2028	1,017,323
FY2029 - 2031	660,538
Total	<u>\$ 2,572,223</u>

**NOTE 13 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES**

The School entered into an agreement with Accel Schools, a management company, to provide legal, financial, and other management support services for fiscal year 2018. The agreement was for a period of five years beginning July 1, 2017. Management fees are calculated as 18% of the School's State Revenues. The total amount due from the School for the fiscal year ending June 30, 2018 was \$230,618 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Changes in Net Position.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE 13 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES (continued)**

Also, per the management agreement there are expenses that will be billed to the School based on the actual costs incurred by Accel Schools. These expenses include rent, salaries of Accel employees working at the School and other costs related to providing education and administrative services. The total amount billed to the School inclusive of management fees during fiscal year 2018 was \$1,095,844.

The following is a summary of the management company expenses during fiscal year 2018:

		<b>Regular Instruction (1100 Function Codes)</b>	<b>Special Instruction (1200 Function Codes)</b>	<b>Support Services (2000 Function Codes)</b>	<b>Total</b>
		1100	1200	2000	
<b><i>Direct Expenses:</i></b>					
Salaries & Wages (100 Object Codes)	100	\$ 417,428.78	\$ 43,092.45	\$ 162,618.88	\$ 623,140.11
Employees' Benefits (200 Object Codes)	200	\$ 18,452.71	\$ 2,074.20	\$ 5,642.47	\$ 26,169.38
Professional & Technical Services (410 Object Codes)	410			\$ 256,174.96	\$ 256,174.96
Property Services (420 Object Codes)	420			\$ 75,741.43	\$ 75,741.43
Communications (440 Object Codes)	440			\$ 54,429.06	\$ 54,429.06
Utilities (450 Object Codes)	450			\$ 4,018.46	\$ 4,018.46
Contracted Craft or Trade Services (460 Object Codes)	460			\$ 203.92	\$ 203.92
Transportation (480 Object Codes)	480			\$ 21,612.76	\$ 21,612.76
Other Supplies (510 Object Codes)	510	\$ 20,227.07		\$ 45,012.83	\$ 65,239.90
Depreciation (600 Object Codes)	600	\$ 27,487.58			\$ 27,487.58
Other Direct Expense (800 Object Codes)	800	\$ 149.95		\$ 9,034.00	\$ 9,183.95
Total Direct Expenses		\$ 483,746.09	\$ 45,166.65	\$ 634,488.77	\$ 1,163,401.51
<b><i>Indirect Expenses:</i></b>					
Overhead				\$ 146,132.21	\$ 146,132.21
<b>Total Expenses</b>		<b>\$ 483,746.09</b>	<b>\$ 45,166.65</b>	<b>\$ 780,620.98</b>	<b>\$ 1,309,533.72</b>

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

Required Supplementary Information  
Schedule of Academy Contributions - Pension  
School Employees Retirement System of Ohio  
Current Fiscal Year

	<u>2018</u>
Contractually Required Contribution	\$ 15,419
Contributions in Relation to the Contractually Required Contribution	<u>(15,419)</u>
Contribution Deficiency (Excess)	<u><u>-</u></u>
Academy Covered Payroll	\$ 114,215
Contributions as a Percentage of Covered Payroll	13.50%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

Required Supplementary Information  
 Schedule of Academy Contributions - Pension  
 State Teachers Retirement System of Ohio  
 Current Fiscal Year

	<u>2018</u>
Contractually Required Contribution	\$ 77,456
Contributions in Relation to the Contractually Required Contribution	<u>(77,456)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
Academy Covered Payroll	\$ 553,257
Contributions as a Percentage of Covered Payroll	14.00%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

Required Supplementary Information  
 Schedule of Academy Contributions - OPEB  
 School Employees Retirement System of Ohio

	<u>2018</u>
Contractually Required Contribution (1)	\$ 1,911
Contributions in Relation to the Contractually Required Contribution	<u>(1,911)</u>
Contribution Deficiency (Excess)	<u><u>-</u></u>
Academy Covered Payroll	\$ 114,215
OPEB Contributions as a Percentage of Covered Payroll (1)	1.67%

(1) Includes Surcharge

(2) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be as it becomes available.

See accompanying notes to the required supplementary information

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**Net Pension Liability**

***Changes of benefit terms - SERS:***

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2018.

The following changes were made to the benefit terms in 2018 as identified: The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

***Changes in assumptions - SERS:***

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016 and 2018. For fiscal year 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement (h) change in discount rate from 7.75% to 7.5%.

***Changes in benefit terms - STRS:***

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2018.

***Changes in assumptions - STRS:***

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2018. For fiscal year 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) inflation assumption lowered from 2.75% to 2.50%, (b) investment return assumption lowered from 7.75% to 7.45%, (c) total salary increases rates lowered by decreasing the merit component of the individual salary increases, as well as by 0.25% due to lower inflation, (d) payroll growth assumption lowered to 3.00%, (e) updated the healthy and disable mortality assumption to the "RP-2014" mortality tables with generational improvement scale MP-2016, (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

**EUCLID PREPARATORY SCHOOL - CUYAHOGA COUNTY, OHIO**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**Net OPEB Liability**

***Changes in Assumptions – SERS***

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018 3.56 percent

Fiscal year 2017 2.92 percent

Single Equivalent Interest Rate, net of plan investment expense,  
including price inflation

Fiscal year 2018 3.63 percent

Fiscal year 2017 2.98 percent

***Changes in Assumptions – STRS***

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also, for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

# OHIO AUDITOR OF STATE KEITH FABER



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

Euclid Preparatory Academy  
Cuyahoga County  
23001 Euclid Avenue  
Euclid, Ohio 44117

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Euclid Preparatory Academy, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated May 21, 2019.

### ***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State

Columbus, Ohio

May 21, 2019

# OHIO AUDITOR OF STATE KEITH FABER



## Independent Accountants' Report on Applying Agreed-Upon Procedure

Euclid Preparatory Academy  
Cuyahoga County  
23001 Euclid Avenue  
Euclid, Ohio 44117

To the Board of Directors:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Euclid Preparatory Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 and Ohio Rev. Code Section 3314.03(a)(11)(d) for the period ended June 30, 2018. Management is responsible for complying with this requirement. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We inspected the Board minutes and observed that the Board adopted an anti-harassment policy at its meeting on March 14, 2018.

Ohio Rev. Code Section 3313.666(B) and Ohio Rev. Code Section 3314.03(a)(11)(d) specifies the following requirements must be included in anti-harassment policies. We inspected the policy for proper inclusion of these requirements:

1. A statement prohibiting harassment, intimidation, or bullying of any student on school property, on a school bus, or at school-sponsored events and expressly providing for the possibility of suspension of a student found responsible for harassment, intimidation, or bullying by an electronic act;
2. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666. The act defines that term as “any intentional written, verbal, electronic or physical act that a student has exhibited toward another particular student more than once and the behavior both (1) causes mental or physical harm to the other student, (2) is sufficiently severe, persistent, or pervasive that it creates an intimidating, threatening, or abusive educational environment for the other student,” and violence within a dating relationship.;
3. A procedure for reporting prohibited incidents;

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Phone: 216-787-3665 or 800-626-2297  
[www.ohioauditor.gov](http://www.ohioauditor.gov)

4. A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
5. A requirement that the custodial parent or guardian of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
6. A procedure for documenting any prohibited incident that is reported;
7. A procedure for responding to and investigating any reported incident;
8. A strategy for protecting a victim from new or additional harassment, intimidation, or bullying, and from retaliation following a report, including a means by which a person may report an incident anonymously;
9. A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
10. A statement prohibiting students from deliberately making false reports of harassment, intimidation, or bullying and a disciplinary procedure for any student responsible for deliberately making a false report of that nature;
11. A requirement that the administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is to provide assistance in the evaluation of whether the Academy has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. and is not suitable for any other purpose.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive style with a large, stylized initial "K".

Keith Faber  
Auditor of State

Columbus, Ohio

May 21, 2019

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# OHIO AUDITOR OF STATE KEITH FABER



**EUCLID PREPARATORY ACADEMY**

**CUYAHOGA COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 4, 2019**