HBCU PREPARATORY SCHOOL 2
(NOW DBA WINGS ACADEMY 2)
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

Dave Yost • Auditor of State

HBCU PREPARATORY SCHOOL 2
(NOW DBA WINGS ACADEMY 2)
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

HBCU Preparatory School 2
(Now dba Wings Academy 2)
Cuyahoga County
10615 Lamontier Avenue
Cleveland, Ohio 44104

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the HBCU Preparatory School 2, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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 School'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 School'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 overall financial statement presentation.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the HBCU Preparatory School 2, Cuyahoga County as of June 30, 2016, 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 liabilities and pension 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 October 19, 2017, on our consideration of the School'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 School's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

October 19, 2017

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016
UNAUDITED

The discussion and analysis of HBCU Preparatory School 2's (The School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2016. 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.

FINANCIAL HIGHLIGHTS

The School's key financial highlights for the fiscal year 2016 are as follows:

- Total assets and deferred outflows increased by $83,808 or 29.81%.
- Total liabilities and deferred inflows of resources increased by $185,652 or 17.58%.
- Total net position decreased by $101,844 or 13.14%.
- Total operating revenues were $882,749. Total operating expenses were $ 1,192,134.

USING THIS ANNUAL REPORT

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

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how the School did financially during fiscal year 2016. These statements include all assets and deferred outflows of resources and 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 net position. This change in net position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs, and other factors.

The School uses enterprise presentation for all of its activities.

STATEMENT OF NET POSITION

The Statement of Net Position answers the question of how the School did financially during 2016. This statement includes all assets and liabilities, 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 years 2016 and 2015.

Statement of Net Position | Table 1

	2016	2015
Assets		
Current and Other Assets	$ 33,011	$ 54,550
Non-Current Assets	61,859	132,359
Capital Assets, net of depreciation	18,990	20,249
Total Assets	113,860	207,158
Deferred Outflows of Resources:		
Pension	251,064	73,958
Liabilities		
Current Liabilities	97,898	111,406
Long-Term Liabilities	1,083,627	802,742
Total Liabilities	1,181,525	914,148
Deferred Inflows of Resources:		
Pension	60,267	141,992
Net Position		
Net Investment in Capital Assets	18,990	20,249
Unrestricted	(895,858)	(795,273)
Total Net Position	$ (876,868)	$ (775,024)

The net pension liability (NPL) is the largest single liability reported by the school at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

2 Minus plan assets available to pay these benefits

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

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

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

At June 30, 2016, the School's net position was a deficit of $876,868 compared to a deficit of $775,024 in 2015. The balance of the School's loan to HBCU Preparatory School 1 (its sister school) was $61,859 as of June 30, 2016, compared to $132,359 in 2015.

The School also reported accrued wages and benefits of $55,410 and $62,545 for 2016 and 2015, respectively, for payroll and other benefits accrued for its employees. The School had accounts payable of $41,788 and 48,161 for fiscal years 2016 and 2015, respectively, due to several vendors.

Statement of Revenues, Expenses, and Changes in Net Position

Table 2 shows the changes in net position for fiscal years 2016 and 2015, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2

Change in Net Position

	2016	2015
Operating Revenue		
State Aid	$ 882,749	$ 956,030
Total Operating Revenue	882,749	956,030
Operating Expenses		
Salaries	507,571	490,355
Fringe Benefits	163,284	126,041
Purchased Services	496,822	565,962
Materials and Supplies	16,173	18,494
Capital Outlays	-	9,897
Depreciation	8,284	7,232
Total Operating Expenses	1,192,134	1,217,981
Operating Loss	(309,385)	(261,951)
Non-Operating Revenues and (Expenses)		
Grants - Federal and State	207,122	174,975
Local Sources	419	1,376
Total Non-Operating Revenues	207,541	176,351
Change in Net Position	(101,844)	(85,600)
Net Position Beginning of the Year	(775,024)	(689,424)
Net Position End of Year	$ (876,868)	$ (775,024)

Revenues generated by a community school are almost entirely dependent on per pupil allotment given by the State foundation and from grants from the United States Department of Education. The School received less in foundation revenues due to decreased student enrollment from 126 in 2015 to 112 in 2016.

The School received federal and state grant monies through, Title I of $207,122 in 2016 compared to $174,975 in 2015.

The School's operating expenses decreased to $1,192,134 from $1,217,981 due to decreased staffing costs and purchased services in 2016, as a direct result of the decreased student enrollment in 2016.

BUDGETING HIGHLIGHTS

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School has developed a one year spending plan and a five-year forecast that is reviewed semi-annual by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

CAPITAL ASSETS

The School has net investment in capital assets. Detailed information regarding capital asset activity is included in the Note 6 in the notes to the basic financial statements.

DEBT OBLIGATIONS

The School long-term debt obligations are directly related to its pension obligations at June 30, 2016 (See Note 9 and Note 12).

RESTRICTIONS AND OTHER LIMITATIONS

The future stability of the School is not without challenges. The School does not receive any funds from taxes. The primary source of funding is the State foundation program. An economic slowdown in the State could result in budgetary cuts to education, which would have a negative impact on the School.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our clients 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, please contact Mr. Sylvester Monroe, Treasurer, 10615 Lamontier Avenue, Cleveland, Ohio 44104 or e-mail at smonroe.treasurer@gmail.com

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HBCU PREPARATORY SCHOOL 2
CUYAHOGA COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2016

Assets:		
Current assets:		
Cash and Cash Equivalents.	$	27,698
Receivables:		
Accounts		313
Deposits and Escrow.		5,000
Total current assets		33,011
Noncurrent assets:		
Advance Receivable		61,859
Depreciable capital assets, net		18,990
Total non-current assets		80,849
Total assets		113,860
Deferred Outflows of Resources:		
Pension		251,064
Liabilities:		
Current liabilities:		
Accounts payable.		41,788
Accrued wages and benefits		55,410
Due to Others		700
Total current liabilities		97,898
Non-current liabilities:		
Pension Liability		1,083,627
Total non-current liabilities		1,083,627
Total liabilities		1,181,525
Deferred Inflows of Resources:		
Pension		60,267
Net Position:		
Net Investment in Capital Assets		18,990
Unrestricted		(895,858)
Total Net Position (Deficit).	$	(876,868)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HBCU PREPARATORY SCHOOL 2
CUYAHOGA COUNTY, OHIO

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

Operating revenues:	
State foundation	$ 882,749
Total operating revenues	882,749
Operating expenses:	
Salaries	507,571
Fringe Benefits	163,284
Purchased services	496,822
Materials and supplies	16,173
Depreciation	8,284
Total operating expenses.	1,192,134
Operating loss	(309,385)
Non-operating revenues:	
Federal and State grants.	207,122
Local Sources	419
Total non-operating revenues	207,541
Change in net position	(101,844)
Net Position (Deficit) at beginning of year	(775,024)
Net Position (Deficit) at end of year	$ (876,868)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HBCU PREPARATORY SCHOOL 2
CUYAHOGA COUNTY, OHIO

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

Cash flows from operating activities:	
Cash received from state foundation	$ 927,597
Cash payments for purchased services -	(548,043)
Cash payments for Employees	(514,706)
Cash payments for Employee Benefits	(140,786)
Cash payments for materials and supplies	(16,173)
Net cash used in operating activities	(292,111)
Cash flows from noncapital financing activities:	
Cash received from Federal and State grants	243,266
Cash received from Non-Operating Sources	419
Net cash provided by noncapital financing activities.	243,685
Cash flows from capital and related financing activities:	
Cash Received from School Advance Receivable.	70,500
Acquisition of capital assets	(7,025)
Net cash provided by capital and related financing activities.	63,475
Net increase (decrease) in cash and cash equivalents	15,049
Cash at beginning of year	12,649
Cash at end of year.	$ 27,698
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	$ (309,385)
Adjustments:	
Depreciation	8,284
Changes in assets and liabilities:	
Decrease in accounts receivable	444
(Increase) in Deferred Outflows of Resources related to Pension	(177,106)
(Decrease) in accounts payable	(6,373)
(Decrease) in accrued wages and benefits	(7,135)
(Decrease) in Deferred Inflows of Resources related to Pension	(81,725)
Increase in pension obligation payable	280,885
Net cash used in operating activities	$ (292,111)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF ENTITY

HBCU Preparatory School 2 (The School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the second grade. The School is a member of the HBCU Preparatory Schools Network with its desire to better align the school's core value to those of the HBCU Preparatory Schools Network. The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax-exempt organization in 2014. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status determination by the IRS.

The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School was approved for operation under a contract with Ohio State Board of Education. 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 termination the contract prior to its expiration.

Kids Count of Dayton, Inc. is currently the Sponsor of the School.

The School operates under the direction of a five-member Board of Trustees. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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.

A. BASIS OF PRESENTATION

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows.

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

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the School are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g revenues) and decreases (e.g expenses) in total net position. The statement of cash flows reflects how the School's finances meet its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted; matching requirements, in which the 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. Expenses are recognized at the time they are incurred.

C. BUDGETARY PROCESS

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the schools sponsorship agreement. The contract between the School and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis. The Board also develops a five year forecast which is reviewed semi-annually.

D. CASH AND CASH EQUIVALENTS

All monies received by the School are maintained in a demand deposit account. The School considers all short-term, highly liquid and investments with an initial maturity of 3 months or less to be cash equivalents. The School had no investments at June 30, 2016.

E. 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.

F. CAPITAL ASSETS

Capital Assets are capitalized at cost. The costs of additions are capitalized while repairs and maintenance costs are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net position. Deprecation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

Asset	Useful Life
Furniture, Equipment and Materials	5 years
Computers and Office Equipment	7 years

The School has an asset capitalization threshold policy of $1,000. (See Note 6)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. NET POSITION

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

H. ACCRUED LIABILITIES

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. As of June 30, 2016, accounts payable was $41,788 due to various vendors.

I. ACCRUED WAGES AND BENEFITS

Accrued Wages and benefits represent the total wages and benefits already earned by employees as of June 30, 2016. The total accrued wages and benefits was $55,410 at June 30, 2016.

J. 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 are the primary activity of the School. Revenue and expenses not meeting this definition are reported as non-operating.

K. ADVANCES TO/FROM SCHOOLS

HBCU Preparatory School 2 and HBCU Preparatory School 1 are considered family schools. These schools have the same educational philosophy, methodology and provide continuity in the student's educational career, from the primary to the secondary buildings. Charter schools traditionally are underfunded and rely primarily on the state foundation, state, and federal grants to finance operations. From time to time, the schools experience cash flow shortages. These schools advance cash to each other to ensure there is sufficient cash to meet payroll and operational expenses. This activity is reported in the Statement of Net Position as Advance Receivable for the School.

These advances are considered collectible. (See Note 7)

L. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditure) until then. For the School, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 12.

In addition to liabilities, the statement of financial position reports a separate section for the 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 is solely related to pension. Deferred inflows of resources related to pension are reported on statement of net position (See Note 12).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. PENSIONS

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

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2016, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application," GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," GASB Statement No. 79, "Certain External Investment Pools and Pool Participants," and GASB Statement No. 82, "Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73."

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School's fiscal year 2016 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School's financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all their investments at amortized cost. This Statement provides accounting and financial reporting guidance and establishes additional note disclosure requirements for governments that participate in those pools. The implementation of this GASB pronouncement did not result in any changes to the School's financial statements.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School's fiscal year 2016 financial statements; however, there was no effect on beginning net position.

4. CASH AND CASH EQUIVALENTS

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, 2016, none of the bank balances were exposed to custodial credit risk.

The School maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, per qualifying account. At June 30, 2016, the book amount of the School's deposits was $27,698 and the bank balance was $27,698.

5. INTERGOVERNMENTAL AND ACCOUNTS RECEIVABLE

Receivables at June 30, 2016, consisted of accounts receivable for overpayments to the School Employee Retirement System (SERS). All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of accounts receivables follows:

Description	Amount
Receivable:	
School Employee Retirement System	$ 313
Total	$ 313

6. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2016 was as follows:

	Balance at 06/30/2015	Additions	Deletions	Balance at 06/30/2016
Capital Assets Being Depreciated				
Computer Equipment	$ 118,253	$ -	$ -	$ 118,253
Furniture and Equipment	36,161	7,025		43,186
Total Capital Assets Being Depreciated	154,414	7,025	-	161,439
Less Accumulated Depreciation				
Computer Equipment	(118,253)	-	-	(118,253)
Furniture and Equipment	(15,912)	(8,284)	-	(24,196)
Total Accumulated Depreciation	(134,165)	(8,284)	-	(142,449)
Net Capital Assets	20,249	(1,259)	-	18,990

7. ADVANCES RECEIVABLE

The School's advance loan to HBCU Preparatory School 1 activity is presented in the following table:

	Advances Receivable 6/30/2015	Additions	Reductions	Advances Receivable 6/30/2016
HBCU Preparatory School 1	$ 132,359	$0	$70,500	$ 61,859

The aforementioned has not yet been repaid at the June 30, 2016 and is recorded in the Statements of Net Position as Advances Receivable.

These advances are approved by the School's administration with the Board and Sponsor acknowledgement.

8. DUE TO OTHERS

The table below details the School's Due to others activity for the fiscal year:

	Due to Others 6/30/2015	Additions	Reduction	Due To Others 6/30/2016
Phoenix Village Academy P 1	$ 700	$0	$ 0	$ 700
	$700	$0	$ 0	$ 700

These payments were received to assist the School in meeting its financial obligations; no written agreements exist governing these types of transactions. No interest is assessed.

9. LONG-TERM LIABILITIES

The School also recorded long-term liabilities related to pension with its implementation of GASB 68.

The table below details the School's long-term liabilities for the fiscal year:

Description	Balance at 06/30/2015	Additions	Deductions	Balance at 06/30/2016
Net Pension Liability:				
STRS	515,584	209,466	-	725,050
SERS	287,158	71,419		358,577
Total Net Pension Liability	802,742	280,885	-	1,083,627
Total Long-Term Obligations	$ 802,742	$280,885	$ -	$ 1,083,627

10. EDUCATIONAL FACILITY LEASE

The School leases its current facility at the former Our Lady of Peace Parish in Cleveland, Ohio. Initially the School signed a one-year lease expiring on June 30, 2012. The lease was automatically renewed for a four-year term expiring on July 1, 2016. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2016, the School paid $40,319 in rental and related occupancy payments and expenses. This amount is recorded and reflected in the Statement of Revenue, Expenses and Change in Net Position as purchased services.

11. RISK MANAGEMENT

A. 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. For the fiscal year 2016, the School contracted with Philadelphia Insurance Companies for all its insurance. The school did not have any claim exceeding the insurance amount for the last three years.

B. 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.

C. EMPLOYEE BENEFITS

The School provides medical benefits to most employees. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employees depending on age, gender, and number of dependents.

12. DEFINED BENEFIT PENSION PLANS

A. NET PENSION LIABILITY

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

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

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

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

12. DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. NET PENSION LIABILITY (CONTINUED)

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

B. PLAN DESCRIPTION – SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers.

The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School's contractually required contribution to SERS was $30,871 for fiscal year 2016. The School paid 100% of the contractually required contribution in 2016.

12. PENSION PLANS (CONTINUED)

C. 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.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

12. DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. PLAN DESCRIPTION – STATE TEACHERS RETIREMENT SYSTEM (STRS) (CONTINUED)

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

The School's contractually required contribution to STRS was $39,344 for fiscal year 2016. Of this amount, $5,122 is reported as accrued wages and benefits payable.

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The net pension liability was measured as of June 30, 2015, and the total pension liability, used to calculate the net pension liability, was determined by an actuarial valuation, as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	0.006284%	0.00262347%	
Proportion of the Net Pension Liability	$ 358,577	$ 725,050	$ 1,083,627
Pension Expense	$ 29,288	$ 62,981	$92,269

12. DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (SUITE)

At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 5,577	$ 33,053	$ 38,630
School's contributions subsequent to the measurement date	30,871	39,344	70,215
Change in Employer Proportion and Difference between contributions and proportionate share of contributions	26,999	115,220	142,219
Total Deferred Outflows of Resources	$ 63,447	$ 187,617	$ 251,064
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$ 8,122	$ 52,145	$ 60,267
Total Deferred Inflows of Resources	$ 8,122	$ 52,145	$ 60,267

$70,215 was 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	$5,497	$17,037	$22,534
2018	5,497	17,037	22,534
2019	5,474	17,039	22,513
2020	7,985	45,016	53,001
Total	$24,453	$96,129	$120,582

E. ACTUARIAL ASSUMPTIONS - SERS

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

12. DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. ACTUARIAL ASSUMPTIONS – SERS (CONTINUED)

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

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

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

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

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

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

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

12. DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. ACTUARIAL ASSUMPTIONS – SERS (CONTINUED)

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

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

Discount Rate

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

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	$497,217	$358,577	$241,830

Changes Between the Measurement Date and Report Date

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

12. DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. ACTUARIAL ASSUMPTIONS – STRS

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

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

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

Actuarial assumptions used in the June 30, 2015, valuation is based on the results of an actuarial experience study, effective July 1, 2012.

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

12. DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. ACTUARIAL ASSUMPTIONS – STRS (CONTINUED)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	$1,007,150	$725,050	$486,493

13. POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS)

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program.

Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned.

13. POSTEMPLOYMENT BENEFITS (CONTINUED)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS) (CONTINUED)

For fiscal year 2016, this amount was $23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School's surcharge obligation was $3,381.

The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were $0, $1,551, and $1,040, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. STATE TEACHERS RETIREMENT SYSTEM OF OHIO

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year ending June 30, 2016 and June 30, 2015, STRS did not allocate any employer contributions to post-employment health care. For the fiscal year ending June 30, 2014, one percent of covered payroll was allocated to post-employment health care.

The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were $0, $0, and $2,497 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

14. CONTINGENCIES

A. GRANTS

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor. Any disallowed costs may require refunding to the grantor. In fiscal year 2016, the School refunded a total of $13,377 related to 2013 and 2014 Special Education grants. Other amounts which may be disallowed, if any, are not presently determinable. In the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

14. CONTINGENCIES (CONTINUED)

B. FULL-TIME EQUIVALENCY

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. An initial FTE calculation for fiscal year 2015, resulted in the School owing the Ohio Department of Education a total of $44,848. Further revisions resulted in an additional amount of $31,602 for the same fiscal year. The School paid a total of 24,406 to the State through their foundation revenues for fiscal year 2015 overpayments. For fiscal year 2016, the School owes the Ohio Department of Education a total of $13,292 as the result of the initial 2016 FTE calculation. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School; therefore, the financial statements impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School.

15. SPONSORSHIP- KIDS COUNT OF DAYTON, INC.

The School contracted with Kids Count of Dayton, Inc. as its sponsor and oversight services as required by law. The School pays the Sponsor three percent of State Aid. Sponsorship fees are calculated as three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2016, sponsorship fees totaled $26,225.

16. PURCHASED SERVICES

For the period of July 1, 2015 through June 30, 2016, the School made the following purchase service commitments. These commitments included sponsor fees, treasurer services, management and CCIP fees, transportation, student services, etc…

Description	2016 Amount
Professional and Technical Services	$ 96,079
Occupancy	40,319
Sponsorship Fees	26,225
Other contract Services	255,786
Food Services	60,808
Other	17,605
Total Purchased Services	$ 496,822

17. FISCAL DISTRESS

As of June 30, 2016, the School had a deficit of $876,868. The School's administration and Board have instituted budgetary constraints which ensure discretionary expenditures remain with annual resources. The School has increased its enrollment in 2015 and in 2016 while trying to reduce its expenditures in order to maintain solvency. The School shares school facilities with its sister school, HBCU Preparatory School 1. The lease, utilities, and other occupancy costs have been reallocated, between both schools, to decrease the overall expenditures for the School.

18. SUBSEQUENT EVENT

The School terminated its contract with its former management company effective January 06, 2017. Since the former management company held a proprietary interest in the name HBCU Preparatory School, they have requested the School no longer use the name. Consequently, the School has changed its name to Wings Academy 2, effective May 18, 2017.

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HBCU PREPARATORY SCHOOL 2

Required Supplementary Information

Schedule of the School's Proportionate Share of the Net Pension Liability

School Employees Retirement System of Ohio

Last Three Fiscal Years (1)

	2015	2014	2013
Total plan pension liability	$ 18,503,280,961	$ 17,881,827,171	$ 17,247,161,078
Plan net position	12,797,184,030	12,820,884,107	11,300,482,029
Net pension liability	5,706,096,931	5,060,943,064	5,946,679,049
School's Proportion of the Net Pension Liability	0.0062841%	0.0056740%	0.0056740%
School's Proportionate Share of the Net Pension Liability	$ 358,577	$ 287,158	$ 337,415
School's Covered-Employee Payroll	$ 192,470	$ 189,587	$ 187,769
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	186.30%	151.47%	179.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available

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

HBCU PREPARATORY SCHOOL 2

Required Supplementary Information

Schedule of the School's Proportionate Share of the Net Pension Liability

School Teachers Retirement System of Ohio

Last Three Fiscal Years (1)

	2015	2014	2013
Total plan pension liability	$ 99,014,653,744	$ 96,167,057,104	$ 94,366,693,720
Plan net position	71,377,578,736	71,843,596,331	65,392,746,348
Net pension liability	27,637,075,008	24,323,460,773	28,973,947,372
School's Proportion of the Net Pension Liability	0.00262347%	0.0021197%	0.0021197%
School's Proportionate Share of the Net Pension Liability	$ 725,050	$ 515,584	$ 614,161
School's Covered-Employee Payroll	$ 286,171	$ 233,230	$ 235,146
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee	253.36%	221.06%	261.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.09%	74.71%	69.30%

(1) Information prior to 2013 is not available

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

HBCU PREPARATORY SCHOOL 2

Required Supplementary Information

Schedule of the School's Contributions

School Employees Retirement System of Ohio

Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contributions	$ 30,871	$ 25,368	$ 26,277	$ 25,987	$ 21,780	$ 14,610	$ 8,485	$ 3,861	(1)	(1)
Contributions in Relation to the Contractually Required Contributions	(30,871)	(25,368)	(26,277)	(25,987)	(21,780)	(14,610)	(8,485)	(3,861)	(1)	(1)
Contribution Defiiency (Excess)	-	-	-	-	-	-	-	-		
School Covered-Employee Payroll	220,508	192,470	189,587	187,769	161,936	116,229	62,664	39,243	(1)	(1)
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	(1)	(1)

(1) Information Not Available

HBCU PREPARATORY SCHOOL 2
Required Supplementary Information
Schedule of the School's Contributions
School Teachers Retirement System of Ohio
Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contributions	$ 39,344	$ 40,064	$ 30,320	$ 30,569	$ 17,478	$ 32,706	$ 13,332	$ 1,490	(1)	(1)
Contributions in Relation to the Contractually Required Contributions	(39,344)	(40,064)	(30,320)	(30,569)	(17,478)	(32,706)	(13,332)	(1,490)	(1)	(1)
Contribution Defiiency (Excess)	$ -	-	-	-	-	-	-	-		
School Covered-Employee Payroll	281,029	286,171	233,230	235,146	134,446	251,585	102,550	11,464	(1)	(1)
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	(1)	(1)

(1) Information Not Available

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

HBCU Preparatory School 2
(Now dba Wings Academy 2)
Cuyahoga County
10615 Lamontier Avenue
Cleveland, Ohio 44104

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 HBCU Preparatory School 2, Cuyahoga County, (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 19, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School'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 School'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 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider significant deficiencies. We consider findings 2016-001 and 2016-002 to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the School'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*.

School's Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School's responses and, accordingly, we express no opinion on them.

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 School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

October 19, 2017

HBCU PREPARATORY SCHOOL 2
(NOW DBA WINGS ACADEMY 2)
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2016

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

1. Condition of Accounting Records

Finding Number	2016-001

<u>SIGNIFICANT DEFICIENCY</u>

All public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirements.

All public offices should maintain or provide capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data.

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the School. Also, management is responsible for developing and maintaining complete and accurate financial records. Instead of complete and accurate financial records, we noted the following:

- The School did not maintain capital asset records during the year and has relied on an independent appraisal company report from 2010 for their capital asset records;
- The School issued checks out of sequence;
- The computer control environment was not properly documented;
- The School did not always attach adequate supporting documentation to the voucher packet for disbursements sampled, and in some cases the wrong supporting documentation was included in voucher packet;
- The School recorded seven invoices totaling $21,193 to Renhill Corporation in the accounting system, while upon review of the actual invoices it was noted that the items were for other vendors. Additionally, one invoice from Renhill for $1,100 was not available;
- The School paid fees for cashier checks to make payments to vendors; and
- The School was assessed and paid late fees to vendors.

The School's management has available numerous sources of information describing the process of internal controls, record keeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions. This deficiency could lead to inaccurate or incomplete financial statements.

We recommend the School implement and maintain controls over accounting records and transactions used to prepare the financial statements.

Official's Response:
The School will ensure a more adequate review of the accounting records in the future.

2. **Developing and Implementation of an Effective Monitoring Control System**

Finding Number	2016-002

SIGNIFICANT DEFICIENCY

Monitoring is comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions.

Monitoring should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring practices include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual fluctuations;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internal prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non-payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

Although the Treasurer prepared monthly financial reports for the Board at each meeting, the School failed to perform adequate monitoring over financial activities. The lack of effective monitoring could lead to the misallocation or misstatement of School funds, expenditure of funds contrary to the directives of the Board, and non-compliance with federal or state laws or regulations. This could result in a loss of funding from federal and state sources, and errors or irregularities occurring in financial transactions which affect the bank reconciliations could go undetected. This deficiency could lead to inaccurate or incomplete financial statements.

We recommend the Board review the monthly financial reports they receive at their meetings and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations and posting of transactions to the accounting ledgers.

Official's Response:
The School is determined to have a strong monitoring of the financials going forward. The Board of Directors will designate a financial committee to review the financials and all monitoring activities of this committee will be documented in the regular minutes, as applicable.

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HBCU PREPARATORY SCHOOL 2
(NOW DBA WINGS ACADEMY 2)
CUYAHOGA COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Condition of Accounting Records.-Beginning in fiscal year 2007 the School did not maintain adequate accounting records. This would include posting items to the ledgers under incorrect payee names, checks issued out of sequence, and lack of capital asset records.	Not Corrected	Management plans to implement monitoring procedures to ensure that these items are addressed in future period.

Dave Yost · Auditor of State

HBCU PREPARATORY SCHOOL 2

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
NOVEMBER 9, 2017

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