

Comprehensive Annual Financial Report

For the Year Ended June 30, 2014



East Preparatory Academy

Cleveland, Ohio



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the East Preparatory Academy, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The East Preparatory Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

May 1, 2015

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**EAST PREPARATORY ACADEMY
 CUYAHOGA COUNTY, OHIO
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2014**

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Introductory Section



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www.eastprep.org

December 31, 2014

East Preparatory Academy
Members of the Board of Directors

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the East Preparatory Academy (the School) for the fiscal year ended June 30, 2014. The CAFR is designed to assist and guide the reader in understanding its contents. The report consists of three major sections:

Introductory Section The Introductory Section includes the Transmittal Letter, a list of our Board members and organizational chart.

Financial Section The Financial Section consists of the Independent Auditor's Report, Management's Discussion and Analysis, and the Basic Financial Statements as well as the Notes to the Basic Financial Statements that provide an overview of the School's financial position and operating results.

Statistical Section The Statistical Section includes selected financial and demographic information about the School.

The School's management is responsible for the reliability of the data presented and the completeness of the presentation, including all disclosures. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the School. All disclosures necessary to enable the reader to gain an understanding of the School's financial activities have been included.

Further, the School has established a comprehensive framework of internal controls that is designed to compile sufficient reliable information for the preparation of its financial statements in accordance with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the School's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

Ohio law requires independent audits be performed on all financial operations of the School either by the Auditor of State or an independent public accounting firm in accordance with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). Rea & Associates, Inc. rendered an opinion on the School's financial statements as of June 30, 2014 and the Independent Auditor's Report on the Basic Financial Statements is included in the Financial Section herein.

As required by GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", management is also responsible for preparing a discussion and analysis of the School. This Letter of Transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. This discussion follows the Independent Auditor's Report and provides an assessment of the School's finances for fiscal year 2014 and the outlook for the future.

Profile of the Government

Ohio charter schools began operating after the passage of a 1997 State law. Charter schools, commonly referred to as “community schools” in Ohio, are public, non-profit, non-sectarian schools established to operate independently of any School District. These schools also are exempt from many of the education laws of the State allowing them to bring innovation and efficiency to the traditional education model. More importantly, the passage of this law made the concept of school choice a reality in Ohio. As required by law, each of these community schools must have a sponsor. Effective July 1, 2013, the School entered into a contract with a sponsor, St. Aloysius Orphanage. St. Aloysius Orphanage provides oversight and advisory services to 43 community schools throughout the State serving over 10,000 children.

East Preparatory Academy is an elementary school offering grades K-8. The School, which first opened its doors in August of 2013 is located in the City of Cleveland, Ohio and is run by a six member Board of Directors. The School has contracted with Midwest Education Partners LLC dba Cambridge Education Partners, LLC (Cambridge) to operate the School on a day-to-day basis. Cambridge Education Partners is an Education Services Provider with offices in Florida and Akron, Ohio. The company has collectively led the development and launch of over 75 schools based on three different school models. The Company has managed the School since its inception.

Economic Issues

Since the enactment of community school legislation, the School has been funded solely on the per pupil funding set forth by State of Ohio (see Statistical Section for historical funding levels). Historically, the School has seen an increase in the base level per pupil funding amount. However, this amount is still less than the amount that traditional school districts in the State receive per pupil, primarily because community schools are not authorized by statute to levy taxes in the communities that they operate in. By comparison, the Cleveland Municipal School District receives over \$18,000 in average per pupil funding from all sources whereas the School (which is also located in the City of Cleveland) receives only \$8,459 from all sources. These disparities in funding are in part, the reason why contracting with a professional educational management firm like Cambridge Education Partners was an attractive option. By managing multiple schools, the Company is able to gain operational efficiencies that are more difficult to achieve in a stand-alone school.

As discussed later, the School was funded on 62 full-time equivalent students for fiscal year 2014. As of the date of this letter, it is expected that the School will maintain that enrollment with the possibility of a slight decline consistent with declines seen in other community schools throughout the State. Obviously, any decline in enrollment would have a direct corresponding impact to current year revenues.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and effectively organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report, which is included herein, will conform to the high standards required by the Certificate of Achievement program.

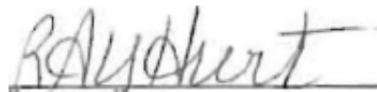
The Comprehensive Annual Financial Report was prepared by the fiscal management team for the School. Their commitment to this process has helped to make this report possible. We would also like to thank Mrs. Rhonda Young- Hurt and other members of the Board of Directors and Finance Committee for their support in this endeavor. It is truly appreciated.

Finally, we would like to thank our School community for entrusting us with the education of your children. You are the reason we are here. We are committed to bettering our students, their parents, and the communities we serve by providing the very best alternative in public education.

Sincerely,



Brian G. Adams MBA, CMA, CFM, CGFM
Fiscal Officer/Internal Auditor
East Preparatory Academy

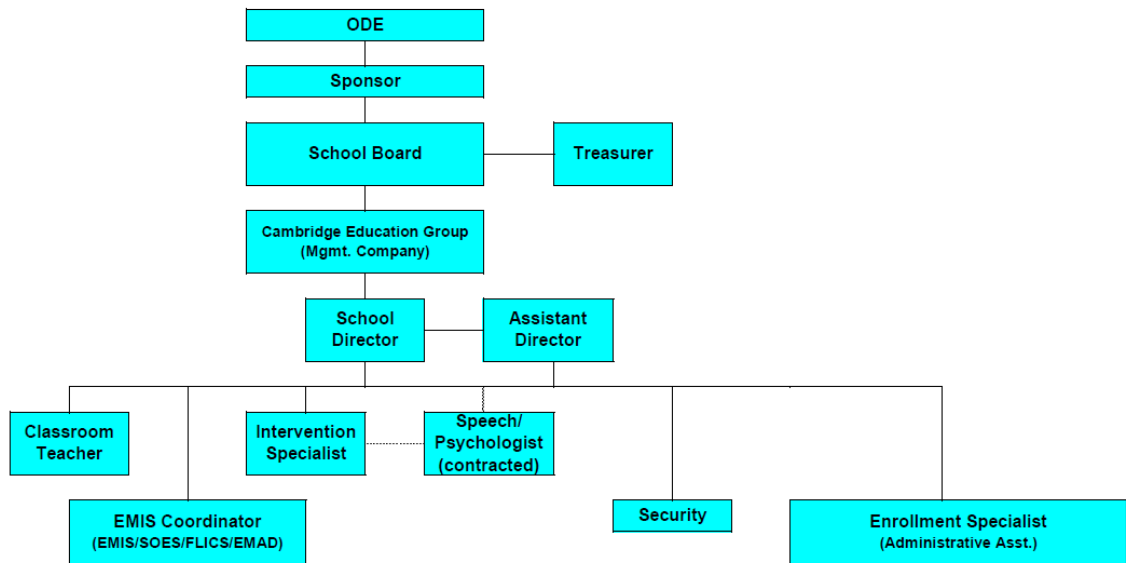


Rhonda Young-Hurt
President, Board of Directors
East Preparatory Academy

East Preparatory Academy
Board of Directors
June 30, 2014

Rhonda Young-Hurt	Board President
Amanda Threatt	Board Member
Brenda Goins	Board Member
Juanita Connor Phillips (In-Memory)	Board Member
Velma Chandler	Board Member
Marilyn Williams	Board Member

Organization Chart



Financial Section

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December 31, 2014

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the East Preparatory Academy, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 16 to the financial statements, the School's deficit net position (\$337,864) and change in net position (\$337,864) raise substantial doubt about its ability to continue as a going concern. Note 16 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Hee & Associates, Inc.

Medina, Ohio

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)**

The discussion and analysis of the East Preparatory Academy (the School's) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. Due to the fact that this is the first year of operation; comparative information will not be available until next fiscal year.

Financial Highlights

- In total, net position was (\$337,864) in the first year of operation. This change in net position is caused by expenses exceeding revenues.
- Total assets were \$70,584 in the first year of operation. This was due primarily to an ending balance in cash, leasehold improvements and retirement receivables at year end.
- Total liabilities were \$408,448 in the first year of operation. This was due in large part to notes payable and continuing fees payable outstanding at year end.

Using this Financial 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 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 2014. 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 resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)**

Table 1 provides a summary of the School's Net Position for fiscal years 2014. In future years a comparison will be made to the previous year.

(Table 1)
Statement of Net Position

	<u>2014</u>
Assets	
Current Assets	\$ 55,584
Non-Current Assets	<u>15,000</u>
Total Assets	<u>70,584</u>
Liabilities	
Current Liabilities	266,415
Long Term Liabilities	<u>142,033</u>
Total Liabilities	<u>408,448</u>
Net Position	
Unrestricted	<u>(337,864)</u>
Total Net Position	<u><u>\$(337,864)</u></u>

The year ended June 30, 2014 represented the initial year of operation for the School. Total assets were \$70,584 primarily due to ending balances in cash, leasehold deposits and retirement receivables. Total liabilities were \$408,448 primarily due to notes payable and continuing fees payables at year end.

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal year 2014, 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. In future years, a comparison will be made to the previous years.

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)**

(Table 2)
Change in Net Position

	2014
Operating Revenue	
State Aid	\$ 461,674
Casino Aid	1,764
Facilities Aid	5,723
Non-Operating Revenue	
Grants	54,913
Miscellaneous	376
Total Revenues	524,450
 Operating Expenses	
Purchased Services: Salaries and Benefits	341,303
Purchased Services: Management Fees	46,984
Sponsorship Fees	13,850
Legal	14,266
Auditing and Accounting	33,991
Other Professional Services	49,632
Other Purchased Services	235,163
Supplies	78,854
Furniture, Fixtures and Equipment	32,944
Other Operating Expenses	15,327
 Total Expenses	 862,314
 Change in Net Position	 \$ (337,864)

The year ended June 30, 2014 is the initial year of operation for the School. Financial information for June 30, 2013 is not available for inclusion in the discussion and analysis; therefore, no comparison between current and prior year can be analyzed. The change in net position is due to expenses exceeding revenues in the initial year of operation.

Budgeting Highlights

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

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)**

Capital Assets

At the end of fiscal year 2014, the School has \$0 invested in Capital Assets.

Debt

At the end of fiscal year 2014, the School had \$200,000 outstanding in notes payable for startup costs with Cambridge Education Group. See Note 15 for further information.

Current Financial Issues

The East Preparatory Academy received revenue for 62 students in 2014 and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$7,567 in fiscal year 2014. The School receives additional revenues from grant subsidies.

On July 1, 2013, the School contracted with the Saint Aloysius Orphanage (SAO) as its sponsor. State law allows sponsors to assess the schools up to 3 percent of State revenues as an oversight fee, a cost that was not incurred through the sponsorship by ODE. St. Aloysius Orphanage charged 3 percent of the State revenues for fiscal year 2014.

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

Contacting the School's Financial Management

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

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 15,455
Accounts Receivable	370
Retirement System Receivable	28,564
Grants Receivable	<u>11,195</u>

Total Current Assets 55,584

Noncurrent Assets

Leasehold Deposits	<u>15,000</u>
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Total Non-Current Assets 15,000

Total Assets 70,584

LIABILITIES

Current Liabilities

Accounts Payable	87,174
Continuing Fees Payable	121,068
Payable to School	206
Note Payable, Due within one year	<u>57,967</u>

Total Current Liabilities 266,415

Long-Term Liabilities:

Note Payable, Due in more than one year	<u>142,033</u>
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Total Liabilities 408,448

NET POSITION

Unrestricted (337,864)

Total Net Position \$ (337,864)

See accompanying notes to the basic financial statements

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

OPERATING REVENUES

State Aid	\$ 461,674
Casino Aid	1,764
Facilities Aid	<u>5,723</u>

Total Operating Revenues 469,161

OPERATING EXPENSES

Purchased Services: Salaries and Benefits	341,303
Purchased Services: Management Fees	46,984
Sponsorship Fees	13,850
Legal	14,266
Auditing and Accounting	33,991
Other Professional Services	49,632
Other Purchased Services	235,163
Supplies	78,854
Furniture, Fixtures and Equipment	32,944
Other Operating Expenses	<u>15,327</u>

Total Operating Expenses 862,314

Operating Loss (393,153)

NON-OPERATING REVENUE

Grants	54,913
Miscellaneous	<u>376</u>

Total Non-Operating Revenue 55,289

Change in Net Position (337,864)

Net Position Beginning of Year -

Net Position End of Year \$ (337,864)

See accompanying notes to the basic financial statements

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM/ (USED FOR) OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 469,161
Cash Payments to Suppliers for Goods and Services	<u>(682,800)</u>
Net Cash Used For Operating Activities	<u>(213,639)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grants	43,718
Cash Payments for Leasehold Deposits	(15,000)
Cash Received from Loans	200,000
Miscellaneous Cash Receipts	<u>376</u>
Net Cash Provided by Noncapital Financing Activities	<u>229,094</u>

Net Increase in Cash and Cash Equivalents	<u>15,455</u>
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Cash and Cash Equivalents Beginning of Year	<u>-</u>
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Cash and Cash Equivalents End of Year	<u><u>\$ 15,455</u></u>
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**RECONCILIATION OF OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Operating Loss	<u>\$ (393,153)</u>
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Changes in Assets and Liabilities:	
Accounts Receivable	(370)
Accounts Payable	87,174
Continuing Fees Payable	121,068
Payable to School	206
Retirement System Receivable	<u>(28,564)</u>

Net Cash Used For Operating Activities	<u><u>\$ (213,639)</u></u>
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See accompanying notes to the basic financial statements

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**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

The School signed a contract with Saint Aloysius Orphanage (Sponsor), to operate for the period of July 1, 2013 through June 30, 2015.

The School operates under a self-appointing, six-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The facility is staffed with teaching personnel employed by Cambridge, who provide services to 62 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

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

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2014. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. Cash and Cash Equivalents

All cash received by the School are maintained in a demand deposit accounts only.

E. Intergovernmental Revenues

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

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues (Continued)

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2014 school year totaled \$524,074.

F. Capital Assets and Depreciation

For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000.

As of June 30, 2014 the School had no capital assets.

G. Use of Estimates

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

H. Net Position

Net Position represent the difference between assets and liabilities. Net Position consists of unrestricted Net Position.

I. Operating Revenues and Expenses

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

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all School deposits was \$15,455, and its bank balance of \$27,734. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, all of the bank balance was covered by Federal Deposit Insurance Corporation. Any amounts under \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC), as these balances were deposited in multiple accounts.

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

4. GRANTS FUNDING RECEIVABLE

The School has recorded "Grants Funding Receivable" in the amount of \$11,195 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2014.

5. CONTINUING FEES PAYABLE

Under the terms of the management agreement with Midwest Education Partners, dba Cambridge Education Partners, (see note 7) a related "Continuing Fees Payable" in the amount of \$121,068 has been recorded by the School for any State and Federal monies unpaid to Cambridge as of June 30, 2014.

6. RISK MANAGEMENT

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

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

7. AGREEMENT WITH MIDWEST EDUCATION PARTNERS

Effective July 1, 2013, the School entered into a multi-year Management Agreement (Agreement) with Midwest Education Partners, LLC, a Florida limited liability company dba Cambridge Education Partners, LLC, which is an educational consulting and management company. The Agreement's term will run through two academic school years ending June 30, 2015 unless terminated by either party. Thereafter, the agreement will automatically renew for additional successive three (3) year terms. Substantially most functions of the School have been contracted to Cambridge. Cambridge is responsible and accountable to the School's Board of Directors for the administration

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

7. AGREEMENT WITH MIDWEST EDUCATION PARTNERS (continued)

and day-to-day operations. As part of the terms of this agreement, the "Continuing Fee" percentage of the School is 16 percent. "Continuing Fees" are defined in the Agreement as the Schools Qualified Gross Revenues, "...the revenue per student received by the School from the State of Ohio Department of Education pursuant to Title 33 and other provisions of the Ohio Revised Code...". With regard to grant funding, the agreement reads as follows: "Federal Title Programs, lunch programs revenue, and other such federal, state and local government grant funding designated to compensate the school for the education of its students shall be maintained by the School." Qualified Gross Revenue does not include facilities funding from any source, charitable contributions, proceeds from fundraisers, casino revenue, or fees charged to students. The continuing fee is paid to Cambridge based on the previous month's qualified gross revenues.

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

The School had purchased service expenses for the year ended June 30, 2014, to Cambridge of \$388,287 and payables to Cambridge at June 30, 2014 aggregating \$121,068. Cambridge is responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, maintenance, capital, and insurance.

8. DEFINED BENEFIT PENSION PLANS

The School has contracted with Cambridge to provide employee services and to pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to each of the systems noted below (See Note 7):

A. School Employees Retirement System

Plan Description – The School, contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employer/ Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and 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 a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund) of the System. For the fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining .90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (continued)

School contribution to SERS for the year ended June 30, 2014 was \$33,709 which equaled the required contribution each year. However, a receivable in the amount of \$28,564 has been recorded on the financial statements.

B. State Teachers Retirement System

Plan Description – The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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 invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2014, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (continued)

The School's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2014 was \$32,869 which 100% has been contributed.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2014, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

9. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement Systems

In addition to a cost-sharing multiple-employer defined pension plan the School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2014, the actuarial required allocation is .74 percent. The Schools' contributions for the year ended June 30, 2014 was \$1,806 which equaled the required contributions this year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' post-employment benefits through employer contributions.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

10. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement Systems (Continued)

Health Care Fund. For the year ended June 30, 2014, the health care allocation is .16 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides 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 the fiscal year June 30, 2014, the minimum compensation level was established at \$20,525. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Schools' contributions assigned to health care for the year ended June 30, 2014 was \$4,082.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

B. State Teachers Retirement System

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

Funding Policy - Ohio law 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 Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal year ended June 30, 2014 was \$2,528 which has been contributed for this fiscal year.

11. CONTINGENCIES

A. Grants

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

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

11. CONTINGENCIES (Continued)

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2014 are immaterial and will be included in the financial activity for fiscal year 2015.

12. FEDERAL TAX STATUS

The School has filed for § 501(c)(3) of the Internal Revenue Code as a tax exempt organization.. In the interim, the School has begun the process to file IRS Form 990, "Return of Organization Exempt from Income Tax."

13. SPONSORSHIP FEES

The School contracted with Saint Aloysius Orphanage as its sponsor effective July 1, 2013. SAO will be paid three percent (3%) for the fiscal year ended June 30, 2014, of all foundation funds received by the School from the State of Ohio. Total fees for fiscal year 2014 were \$13,850. The Sponsor provides oversight, monitoring, and technical assistance for the School.

14. DEPOSITS AND OPERATING LEASES – LESSEE DISCLOSURE

During fiscal year 2014, the school entered into a lease agreement with Immaculate Conception Parish for the facilities located at 4129 Superior Ave. Cleveland, Ohio 44103. The term of the lease is five years with a monthly payment of \$5,902 effective July 1, 2013. The School paid a security deposit of \$15,000 to secure the facility.

**EAST PREPARATORY ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

15. NOTES PAYABLE

Changes in the School's long-term obligations during fiscal year 2014 were as follows:

The school entered into a loan agreement with Cambridge Education Group (CEG) as of June 30, 2014 to cover costs advanced by CEG during. The note payable is recorded on the financial statements at \$200,000. There were no payments made during fiscal year 2014. Below is the repayment schedule

	<u>Principal Outstanding 6/30/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2014</u>	<u>Amounts Due Within one year</u>
Cambridge Education Group	\$ -	\$200,000	\$ -	\$ 200,000	\$ 57,967

<u>Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$57,967	\$7,969	\$65,936
2016	66,335	5,595	71,930
2017	69,729	2,201	71,930
2018	5,969	25	5,994
	<u>\$200,000</u>	<u>\$15,790</u>	<u>\$215,790</u>

16. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT

For fiscal year 2014, the School had an operating loss of \$393,153, a decrease in net position of \$337,864, and a cumulative net position deficit of \$337,864.

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

Statistical Section

STATISTICAL SECTION

This part of the **East Preparatory Academy** comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the School's overall financial health. This school has presented less than ten years of statistical data due to the fact that the school began operations in 2014.

Contents

Financial Trends

This schedule contains trend information to help the reader understand how the School's overall expenses by class compared with the expenditure per pupil have changed over time.

- Operating Expenses by Category
- State Basic Aid – Per Pupil Funding

Revenue Capacity

This schedule contains information to help the reader assess the affordability of the School's most significant revenue sources the state aid and grants.

- Operating and Non-Operating Revenues

Enrollment Trends

This schedule contains information to help the reader understand the changes in enrollment over time.

- Full-Time Equivalent (FTE) Enrollment

Revenue by Grants Sources

This schedule contains information to help the reader understand the changes in revenues by grant source.

- Grant Revenues by Source

Net Position Trends

This schedule offers information to help the reader understand the funds invested in capital assets versus the unrestricted funds remaining for future expenditures.

- Net Position

Demographic and Economic Information

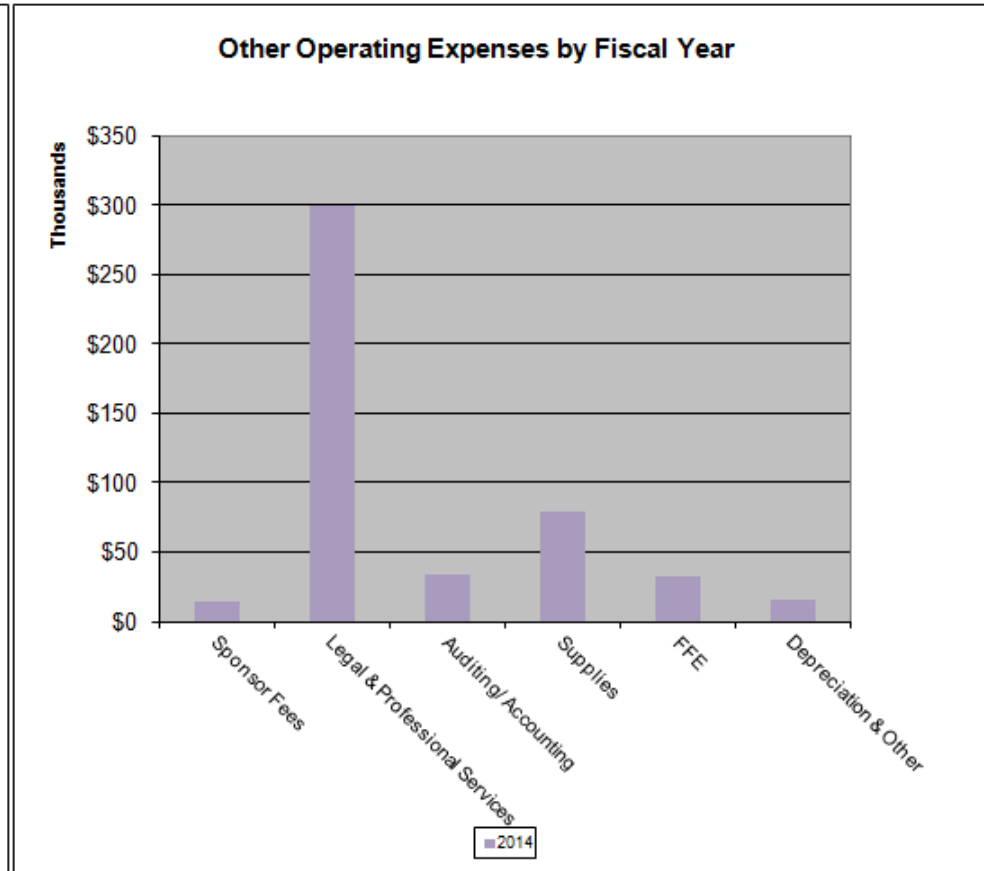
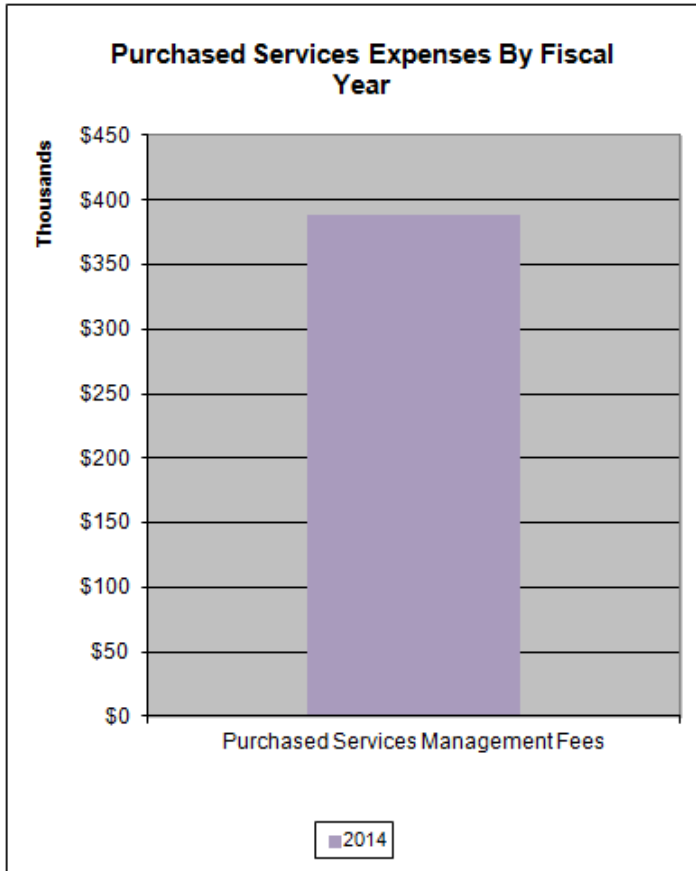
These schedules offer demographic and economic indicators to help the reader understand the environment within which the School's financial activities take place.

- Student Population by Resident District
- Miscellaneous Statistics
- Principal Employers – Source: Resident County Financial Records

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The School implemented GASB Statement 34 for the year ended June 30, 2014.

East Preparatory Academy
Operating Expenses by Category
Initial Fiscal Year

Year	Purchased Services Management Fees	Sponsor Fees	Legal & Professional Services	Auditing/Accounting	Supplies	Furniture, Fixtures, Equipment	Depreciation & Other	Total	Enrollment	Per Pupil Expenditure
2014	\$ 388,287	\$13,850	\$ 299,061	\$ 33,991	\$ 78,854	\$ 32,944	\$ 15,327	\$ 862,314	62	\$ 13,908

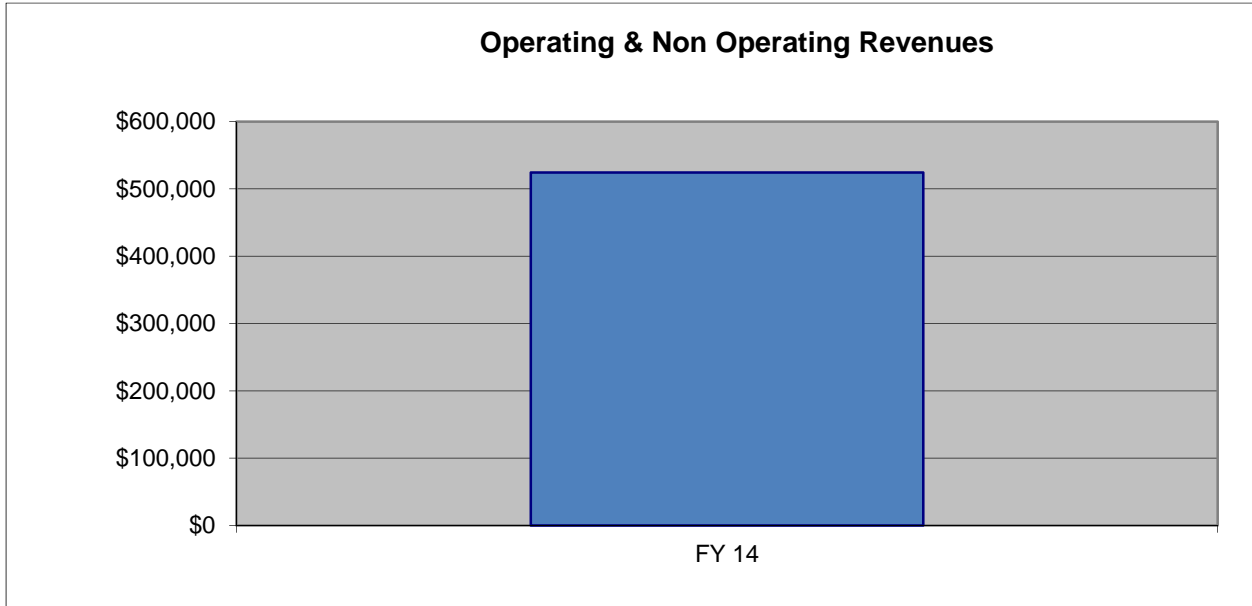


Note: The School began enrolling students in FY 14.

Source: School Financial Records

East Preparatory Academy
 Operating and Non-Operating Revenues
 Initial Fiscal Year

<u>Year</u>	<u>State Aid</u>	<u>Grants</u>	<u>Other</u>	<u>Total</u>
2014	\$ 469,161	\$ 54,913	\$ 376	\$ 524,450

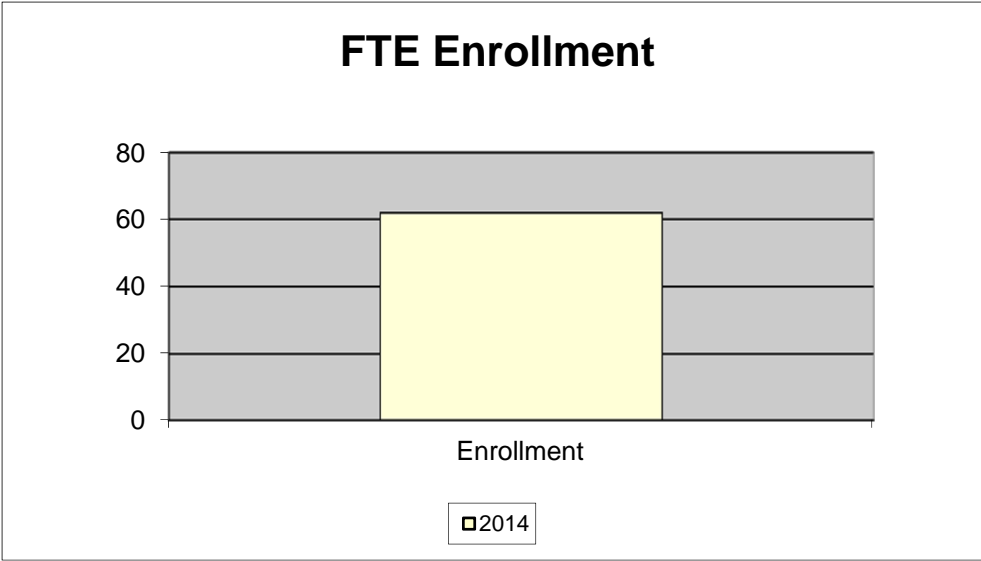


Note: The School began enrolling students in FY 14.

Source: School Financial Records

East Preparatory Academy
Full-Time Equivalent (FTE) Enrollment
Initial Fiscal Year

<u>Year</u>	<u>Enrollment</u>
2014	62

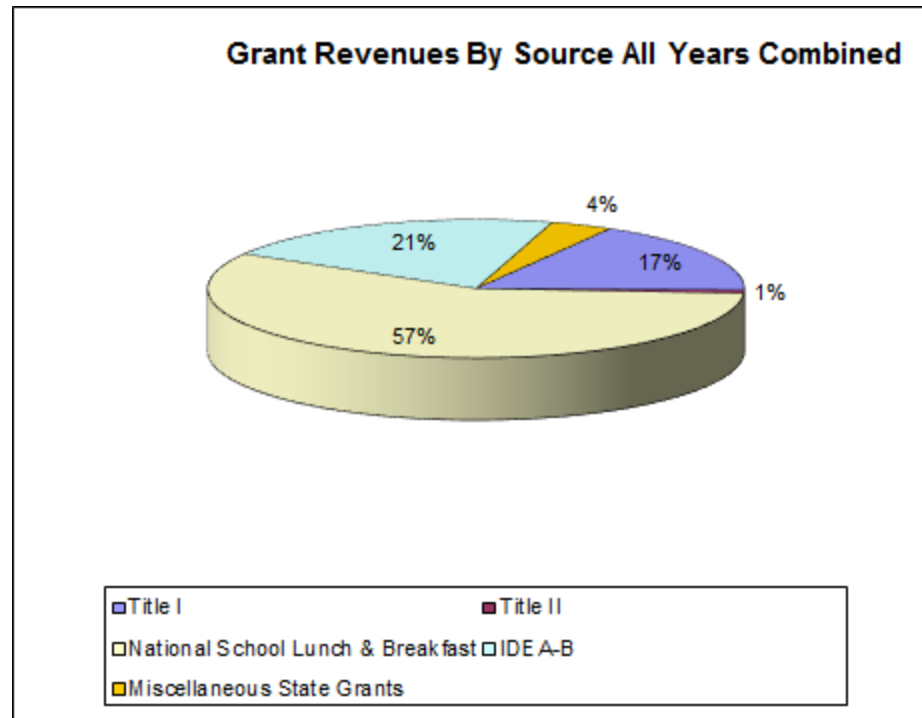


Note: The School began enrolling students in FY 14.

Source: School Financial Records

East Preparatory Academy
Grant Revenues by Source
Initial Fiscal Year

<u>Year</u>	<u>Title I</u>	<u>Title II</u>	<u>National School Lunch & Breakfast</u>	<u>IDEA-B</u>	<u>Miscellaneous State Grants</u>	<u>Total</u>
2014	\$ 9,265	\$ 418	\$ 31,257	\$ 11,579	\$ 2,396	\$ 54,913

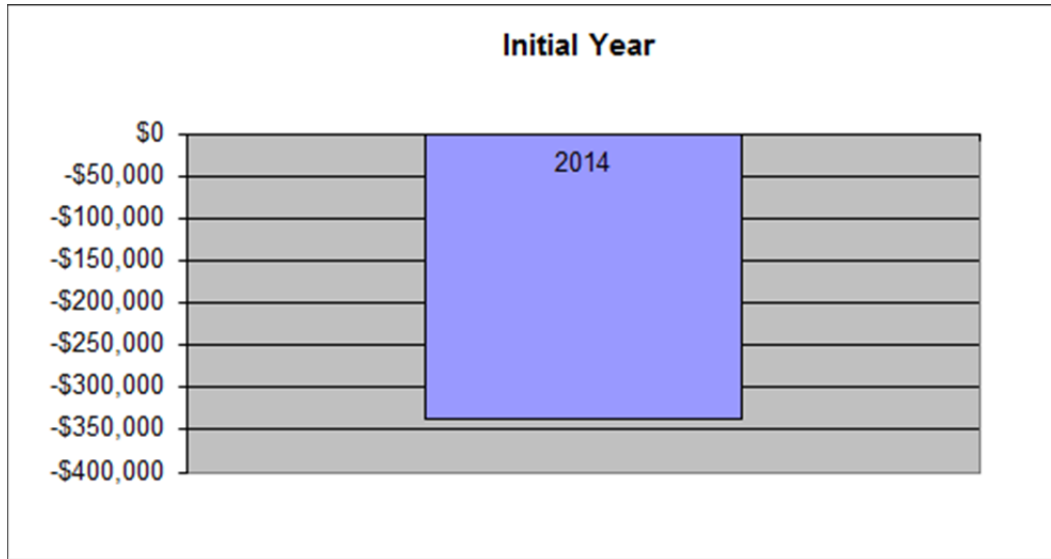


Note: The School began enrolling students in FY 14.

Source: School Financial Records

East Preparatory Academy
 Net Position
 Initial Fiscal Year

Year	Investment in Capital Assets	Unrestricted Net Position	Total Net Position	Change in Net Position
2014	\$ -	\$ (337,864)	\$(337,864)	\$(337,864)

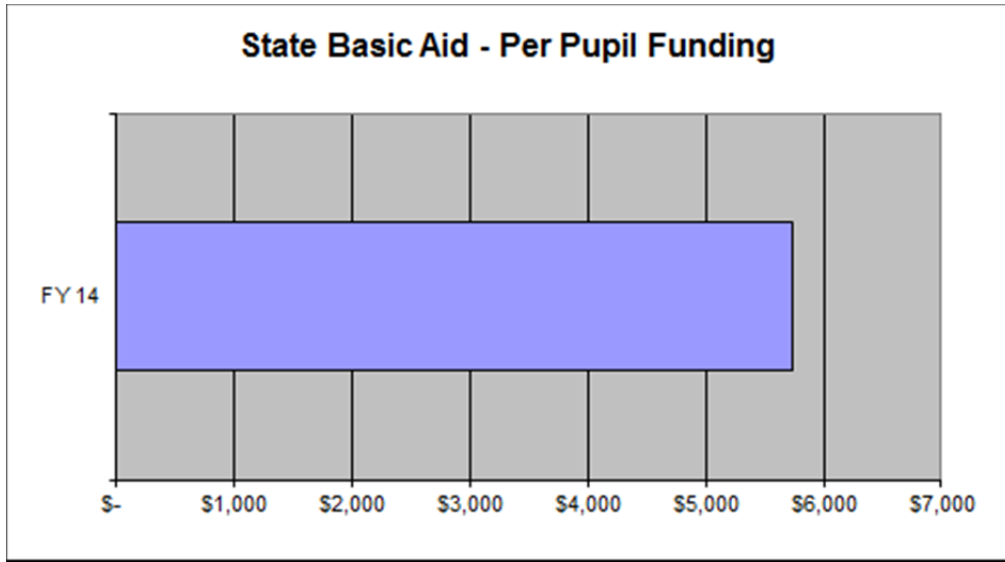


Note: The School began enrolling students in FY 14

Source: School Financial Records

East Preparatory Academy
 State Basic Aid – Per Pupil Funding Amount
 Initial Fiscal Year

Year	Per Pupil Funding	Cost of Doing Business	Total Per Pupil
2014	\$ 5,745	-	\$ 5,745



Note 1: In addition to the above, the School also receives other sources of State Aid Disadvantaged Pupil Impact Aid, Parity Aid, and Special Education funding. The revenues have collectively been identified on the Statement of Revenues, Expenses, and Changes in Net Position as “State Aid.”

The Cost of Doing Business Factors are determined by the State of Ohio and vary by region.

Note 2: The School began enrolling students in FY 14.

Source: Ohio Department of Education

East Preparatory Academy
Student Population by Resident District
2014 Fiscal Year

<u>Resident District</u>	<u>%</u>
Cleveland	99.32%
East Cleveland	0.68%
Total	100%

Note: The School has open enrollment and draws its student population from a large surrounding area. The traditional school district that the student resides in is referred to as the “Resident District”.

Source: Ohio Department of Education

East Preparatory Academy
Miscellaneous Statistics

School Address: 4129 Superior Ave.
Cleveland, OH 44110

Square Footage: 20,000 sq. ft.

Date of Incorporation: 05/17/2003

Instructional Staff: 7

Total FY 14 Staff: 9



Note: All Staff are employees of CEG of Ohio, LLC. See Note 7 in Notes to the Basic Financial Statements.

**Instructional Staff/
Student Ratio** 9:1

**Percent of Low
Income Students:** 100%

Source: School Records

East Preparatory Academy Principal Employers

Cuyahoga County

Principal Employers
(Ranked by the Number of Full-Time Equivalent Employees)
Current Year and Nine Years Ago

Employer	2013			2005*		
	Number of Employees	Rank	% of Total Employment	Number of Employees	Rank	% of Total Employment
Cleveland Clinic Health System	33,514	1	5.60%			
University Hospitals Health System	15,668	2	2.60%			
U.S. Office of Personnel Management	14,810	3	2.50%			
Group Management Services	8,113	4	1.40%			
State of Ohio	8,074	5	1.40%			
Progressive Corporation	7,895	6	1.30%			
Cuyahoga County	7,544	7	1.30%			
United States Postal Service	7,258	8	1.20%			
City of Cleveland	6,825	9	1.20%			
General Motors Company	6,000	10	1.00%			
Cleveland Clinic Health System				27,755	1	4.40%
University Hospitals Health System				16,611	2	2.60%
Cleveland Municipal School District				9,916	3	1.60%
Cuyahoga County				9,142	4	1.50%
City of Cleveland				9,017	5	1.40%
KeyCorp				8,136	6	1.30%
United States Postal Service				7,472	7	1.20%
MetroHealth System				6,397	8	1.00%
Case Western Reserve University				6,051	9	1.00%
Continental Airlines				5,503	10	9.00%
Total Employees	115,701		19.50%	106,000		25.00%
Total Employment within the City	146,100			176,900		

* Information prior to 2005 is unavailable

East Preparatory Academy Cuyahoga County, Ohio

*Reports Issued Pursuant to
Government Auditing Standards*

For the Fiscal Year Ended
June 30, 2014

**East Preparatory Academy
Cuyahoga County, Ohio**

Reports Issued Pursuant to Government Auditing Standards

June 30, 2014

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December 31, 2014

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the East Preparatory Academy, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 31, 2014, wherein we noted the School had a deficit net position balance and an operating loss as of June 30, 2014 and for the year ended, and is experiencing financial difficulties.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

East Preparatory Academy
Independent Auditors Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Page 2

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

December 31, 2014

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

Independent Accountant’s Report on Applying Agreed-Upon Procedures

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 was agreed to by the Board, solely to assist the Board in evaluating whether East Preparatory Academy, Cuyahoga County, Ohio (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on October 3, 2013.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (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 parents or guardians 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 additional harassment, intimidation, or bullying, and from retaliation following a report;
- (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 requirement that the district 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.
- (11) A statement to include violence within a dating relationship within its definition of harassment, intimidation or bullying.
- (12) A statement to include prohibiting harassment, intimidation, or bullying of any student by an "electronic act".
- (13) A statement to include prohibiting harassment, intimidation, or bullying of any student "on a school bus."

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

Medina, Ohio



Dave Yost • Auditor of State

EAST PREPARATORY ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 14, 2015**