

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS

(AUDITED)

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2017*

SANDY HADSELL, TREASURER



Dave Yost • Auditor of State

Board of Directors
Liberty Preparatory School
PO Box 374
Smithville, OH 44677

We have reviewed the *Independent Auditor's Report* of the Liberty Preparatory School, Wayne County, prepared by Julian & Grube, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 30, 2018

This page intentionally left blank.

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 6
Basic Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	10 - 16
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17 - 18

This page intentionally left blank.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Liberty Preparatory School
Wayne County
350 South Main Street
Creston, Ohio 44217

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Liberty Preparatory School, Wayne County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Liberty Preparatory 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 Liberty Preparatory 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 Liberty Preparatory 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Liberty Preparatory School, Wayne County as of June 30, 2017, and the changes in financial position and its cash flows and for the fiscal 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*, 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 December 7, 2017, on our consideration of the Liberty Preparatory 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 Liberty Preparatory School's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 7, 2017

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- In total, net position was a balance of \$67,788 at June 30, 2017.
- The School had operating revenues of \$626,960, operating expenses of \$636,523 and nonoperating revenues of \$48,471 for fiscal year 2017. The total change in net position for the fiscal year was an increase of \$38,908.

Using the Basic Financial Statements

This annual report consists of management's discussion and analysis, the basic financial statements and the notes to those statements. These statements are organized so the reader can understand the School's financial activities. The statement of net position and the statement of revenues, expenses and changes in net position provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did the School do financially during fiscal year 2017?" These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's net position and change in net position. 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 causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-16 of this report.

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY, OHIO**

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

The table below provides a summary of the School's net position for 2017 compared to 2016.

	2017	2016
<u>Assets</u>		
Current assets	\$ 135,343	\$ 102,439
<u>Liabilities</u>		
Current liabilities	67,555	73,559
<u>Net Position</u>		
Restricted	342	52
Unrestricted	67,446	28,828
Total net position	\$ 67,788	\$ 28,880

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the School's net position was a balance of \$67,788.

Current assets include the School's demand deposit account and prepaids. Current liabilities include both accounts payable due to vendors for goods and services and payments owed to Midland Council of Governments and Tri-County Education Service Center for services provided to the School by those entities.

A portion of the School's net position, \$342, represents resources that are subject to external restriction on how they may be used. Unrestricted net position may be used to meet the School's ongoing obligations to students and creditors.

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY, OHIO**

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

The table below shows the changes in net position for 2017 compared to 2016.

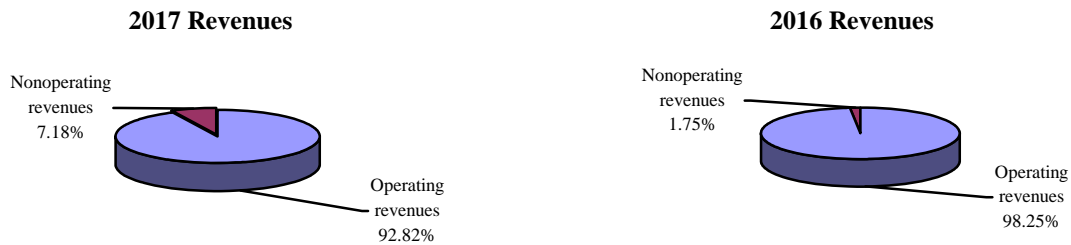
Change in Net Position

	<u>2017</u>	<u>2016</u>
<u>Operating Revenues:</u>		
State foundation	\$ 613,510	\$ 452,879
Charges for services	13,450	13,489
Total operating revenues	<u>626,960</u>	<u>466,368</u>
<u>Operating Expenses:</u>		
Purchased services	553,294	463,403
Materials and supplies	73,246	56,306
Other	9,983	11,760
Total operating expenses	<u>636,523</u>	<u>531,469</u>
<u>Nonoperating Revenues:</u>		
Grants and subsidies	46,645	8,241
Interest revenue	17	38
Micellaneous	1,809	35
Total nonoperating revenues	<u>48,471</u>	<u>8,314</u>
Change in net position	38,908	(56,787)
Net position at beginning of year	<u>28,880</u>	<u>85,667</u>
Net position at end of year	<u>\$ 67,788</u>	<u>\$ 28,880</u>

Fiscal year 2017 was the third year of operations for the School. The School is reliant upon State foundation revenue to support operations. The School also receives federal grant revenue which is reported as non-operating revenue.

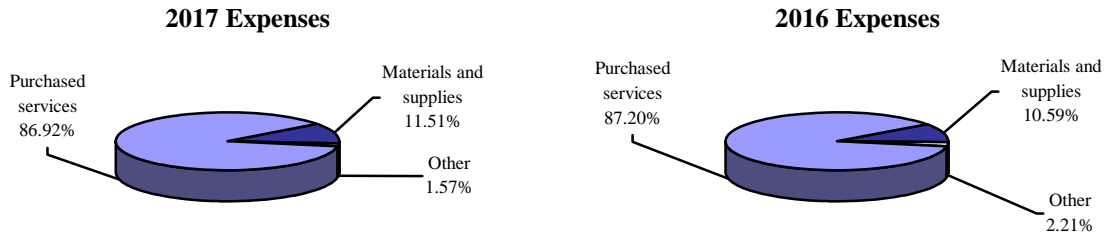
Purchased services are the largest expense to the School. Purchased services expenses primarily include payments made to Midland Council of Governments and Tri-County Educational Service Center for various services as outlined in Note 9 to the basic financial statements.

The charts below illustrate the revenues and expenses for the School during fiscal years 2017 and 2016.



**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY, OHIO**

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



Capital Assets

The School maintains a capitalization threshold of \$5,000. The School had no capital assets at June 30, 2017.

Current Financial Related Activities

The School is reliant upon State foundation monies and State and federal grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and federal funds that are made available to finance its operations.

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 show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Sandy Hadsell, Treasurer, Liberty Preparatory School, 161 S. Main St. PO Box 4443 Creston, OH 44217.

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:	
Equity in pooled cash and cash equivalents	\$ 133,282
Prepayments	<u>2,061</u>
Total assets.	<u>135,343</u>
Liabilities:	
Accounts payable.	31
Intergovernmental payable	<u>67,524</u>
Total liabilities	<u>67,555</u>
Net position:	
Restricted for:	
Restricted for other purposes.	342
Unrestricted.	<u>67,446</u>
Total net position.	<u>\$ 67,788</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY, OHIO**

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

Operating revenues:	
Foundation revenue	\$ 613,510
Tuition and fees.	13,450
Total operating revenues	<u>626,960</u>
Operating expenses:	
Purchased services.	553,294
Materials and supplies	73,246
Other.	9,983
Total operating expenses.	<u>636,523</u>
Operating loss	<u>(9,563)</u>
Non-operating revenues:	
Grants and subsidies.	46,645
Interest revenue	17
Miscellaneous	1,809
Total nonoperating revenues.	<u>48,471</u>
Change in net position	38,908
Net position at beginning of year	<u>28,880</u>
Net position at end of year	<u><u>\$ 67,788</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from state foundation	\$ 585,365
Cash received from tuition and fees	13,450
Cash payments for contractual services	(532,483)
Cash payments for materials and supplies	(71,916)
Cash payments for other expenses	(11,256)
	<hr/>
Net cash used in operating activities	(16,840)
	<hr/>
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	46,645
Cash received from contributions and donations	1,809
	<hr/>
Net cash provided by noncapital financing activities.	48,454
	<hr/>
Cash flows from investing activities:	
Interest received	17
	<hr/>
Net cash provided by investing activities	17
	<hr/>
Net increase in cash and cash equivalents	31,631
Cash and cash equivalents at beginning of year	101,651
Cash and cash equivalents at end of year	\$ 133,282
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (9,563)
Changes in assets and liabilities:	
(Increase) in prepayments.	(1,273)
(Decrease) in accounts payable	(6,247)
Increase in intergovernmental payable	243
	<hr/>
Net cash used in operating activities	\$ (16,840)
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Liberty Preparatory School, Wayne County, Ohio (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702, to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service, that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. 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. The School's objective is to specifically address the needs of students who have met some academic requirements but have failed to successfully complete all those requirements necessary for the attainment of the high school diploma, or for those wishing to pursue a career or post-secondary study. The ultimate focus of the School's curriculum is to assist its students to earn credits for promotion through grades 7-12 and ultimately in earning a high school diploma while preparing them for higher education and employment opportunities. The School, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was approved for operation under a contract with the Tri-County Educational Service Center (the "Sponsor") for a period of three years commencing July 1, 2013 through June 30, 2016. Liberty Preparatory School and Tri-County Educational Service Center have renewed the sponsorship agreement for July 1, 2016 through June 30, 2019. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Tri-County Educational Service Center provides teaching and administrative staff to the School on a contract basis. Midland Council of Governments provides technical support staff and services.

The School has entered into purchased service agreements with the Tri-County Educational Service Center and Midland Council of governments to provide various purchased services to the School. Terms of the purchased service agreements are further described in Note 9.

The School operates under the direction of a self-appointed five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, 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 Board controls the School's one instructional/support facility which provides services to 95 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School's significant 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.

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. 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 statements of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

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 specific 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.

D. Budgetary Process

Unlike traditional public schools located in the State of Ohio, the School is not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast which is updated on an annual basis.

E. Cash

All monies received by the School are deposited into a demand deposit account.

F. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Amounts restricted for other purposes include amounts restricted for school support.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Intergovernmental Revenue

The School currently participates in the State Foundation Program. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2017 school year, excluding all other federal and State grants, totaled \$613,510. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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. Federal grant revenue for the fiscal year 2017 received was \$46,645.

H. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

I. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The School maintains a capitalization threshold of \$5,000. The School does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The School had no capital assets at June 30, 2017.

J. Prepayments

Certain payments to vendors reflected the costs applicable to future accounting periods and were recorded as prepaid items in the financial statements. These items were reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts was recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting these definitions are reported as non-operating.

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2017, the School has implemented GASB Statement No. 77, “*Tax Abatement Disclosures*”, GASB Statement No. 78, “*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*”, GASB Statement No. 80, “*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*” and GASB Statement No. 82, “*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*”.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the School.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

At June 30, 2017, the carrying amount of all School deposits was \$133,282. Based on the criteria described in GASB Statement No. 40, “*Deposits and Investment Risk Disclosures*”, as of June 30, 2017, the entire bank balance of \$133,649 was covered by the Federal Deposit Insurance Corporation (FDIC).

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - PURCHASED SERVICES

For fiscal year 2017, purchased services expenses were as follows:

Professional Services	\$ 506,106
Property Rental and Services	30,226
Travel, Mileage and Meetings	2,962
Communications	<u>14,000</u>
 Total Purchased Services	 <u>\$ 553,294</u>

NOTE 6 - RISK MANAGEMENT

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. The School is covered under the insurance policies maintained by Liberty Preparatory School as purchased through Cincinnati Insurance. The school facility is insured by Smithville United Methodist Church. Settled claims did not exceed this commercial coverage in any of the past three years, and there has been no significant reduction in coverage through June 30, 2017.

NOTE 7 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2017.

B. Ohio Department of Education Enrollment Review

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017.

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School.

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - CONTINGENCIES - (Continued)

In addition, the School's contracts with their Sponsor require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

C. Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 8 - OPERATING LEASE

The School has entered an operating lease with the Smithville United Methodist Church for rent of the School's instructional facility located at 243 N. Milton St. Smithville, Ohio 44677. The lease calls for an annual rental payment of \$24,000 for the period August 1, 2016 through July 31, 2017, and \$27,000 for the period of August 1, 2017 through July 31, 2018. The lease agreement allows for additional Saturdays, and summer days as needed to provide additional instruction to at risk students, and to provide a Saturday School option to the Wayne County Juvenile Court System.

NOTE 9 - SPONSOR CONTRACT AND PURCHASED SERVICE AGREEMENTS

A. Tri-County Educational Service Center

The School entered a one-year contract on August 1st, 2016 with Tri-County Educational Service Center (the "ESC") for sponsorship oversight and monitoring services and instructional staff services. Under this contract, the following terms were agreed upon:

1. The ESC will perform sponsorship oversight and monitoring services to the School for the fiscal year for a fee equal to 3% of the School's State of Ohio Foundation Settlement distribution.
2. The School shall pay the ESC for instructional staff services as required by the School. The School will be invoiced for the applicable instructional staff time used by the School. A 3% Payroll Fee will be assessed to the school by the ESC.
3. The purchased services agreement for fiscal year 2016 is non-cancellable. Both the School and the ESC agree to provide the other party with notification in writing prior to April 15, 2017 of any change in the services to be purchased for the term commencing July 1, 2017 through June 30, 2018.

For fiscal year 2017, \$401,951 was paid to the ESC for sponsorship oversight and monitoring services and instructional staff services under the agreement. To obtain the ESC's audited June 30, 2017 financial statements, please contact Ms. Mary Workman, Treasurer, 741 Winkler Rd, Wooster, Ohio 44691.

B. Midland Council of Governments

The School entered a one-year contract with the Midland Council of Governments (the "COG") for telephone and technology support services. Under this contract, the following terms were agreed upon:

**LIBERTY PREPARATORY SCHOOL
WAYNE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - SPONSOR CONTRACT AND PURCHASED SERVICE AGREEMENTS - (Continued)

1. The COG will provide telephone and technology support services to the school for fiscal year 2017.

For fiscal year 2017, \$29,355 was paid to the COG for telephone and technology support services under the agreement.

NOTE 10 - FISCAL MANAGEMENT PLAN

The governing board and administration of the School have developed the following fiscal management plan beginning fiscal year 2017:

1. Following three full years of operations, a cash balance of \$133,282 was recorded on June 30, 2017. Additional payments for fiscal year 2017 services will be paid to Tri-County ESC during July, August and September.

Enrollment continues to be a top priority. Continued efforts will be made to increase enrollment and maintain adequate staff numbers. The School started the fiscal year 2017 school year with 64 students and finished with 81. The School began utilizing federal grant funds from Title I, Title II-A and IDEA in fiscal year 2017.

- a. Professional development will be focused on completing the steps necessary to complete the Ohio Improvement Process. This will allow the School to move into the Schoolwide Pool program, which allows for better utilization of Federal and Local Funds.
 - b. The Governing Board and Administration have established general fund cash balance goals of \$125,000 by June 30, 2017 and \$135,000 by June 30, 2018, to improve end of year cash balances. Management is able to report that June 30, 2017, cash fund balances were \$86,093 for the General Fund and \$133,282 for all funds. The Board has established a cash reserve fund of \$46,848 to cover future FTE adjustments by ODE. Major adjustments are not anticipated, but the Board established the fund as a safety net for any possible ODE foundation deductions.
2. Due to the nature of GAAP reporting, the Governing Board understands that outstanding liabilities for professional staff services at year end will be a significant factor affecting year end reports. Improving the year end cash assets will help to offset those outstanding liabilities.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Liberty Preparatory School
Wayne County
350 South Main Street
Creston, Ohio 44217

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 Liberty Preparatory School, Wayne County, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Liberty Preparatory School's basic financial statements and have issued our report thereon dated December 7, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Liberty Preparatory 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 Liberty Preparatory 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 Liberty Preparatory School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Directors
Liberty Preparatory School

Compliance and Other Matters

As part of reasonably assuring whether the Liberty Preparatory 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*.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 7, 2017



Dave Yost • Auditor of State

LIBERTY PREPARATORY SCHOOL

WAYNE 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
APRIL 12, 2018