

Lorain Preparatory Academy
Lorain County, Ohio

Audited Financial Statements
For the Fiscal Year Ended June 30, 2017



Dave Yost • Auditor of State

Board of Trustees
Lorain Preparatory Academy
3038 Leavitt Road
Lorain, Ohio 44053

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

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lorain 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

February 15, 2018

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**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO**

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	13
Required Supplementary Information:	
Schedule of the Academy’s Proportionate Share of the Net Pension Liability	33
Schedule of the Academy’s Contributions	35
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 <i>Government Auditing Standards</i>	37
Independent Auditors’ Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance	39
Schedule of Expenditures of Federal Awards	41
Notes to the Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43

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December 26, 2017

To the Board of Directors
Lorain Preparatory Academy
Lorain County, Ohio
4125 Leavitt Road
Lorain, Ohio 44053

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Lorain Preparatory Academy, Lorain County, Ohio, (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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 Academy'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 Academy'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 Academy as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 16 to the financial statements, the Academy has previously suffered recurring losses from operations and has a net position deficit of \$2,491,244 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability and related accruals totaling \$2,034,721. 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* and the *Schedule of the Academy's Proportionate Share of the Net Pension Liability*, and *Schedule of the Academy's Contributions* on pages 4-8, 33-34, and 35-36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The *Schedule of Expenditures of Federal Awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling

such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Expenditures of Federal Awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2017 on our consideration of the Academy'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 Academy's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Cambridge, Ohio

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

The discussion and analysis of the Lorain Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance. The first year of the Academy's operations was 2007. The Academy began accepting students and community school foundation revenue in December of 2006.

FINANCIAL HIGHLIGHTS

- Net position decreased \$237,555.
- Total revenue decreased from \$4,373,847 in fiscal year 2016 to \$3,750,447 in fiscal year 2017.
- Operating expenses increased from \$3,105,760 in fiscal year 2016 to \$3,925,685 in fiscal year 2017.

OVERVIEW OF FINANCIAL STATEMENTS

The financial report consists of three parts: the required supplemental information, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. 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. The statement of net position represents the statement of position of the Academy. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from governmental-wide financial statements is included in the discussion and analysis.

The following tables represent a summary the Academy's condensed financial information derived from the statement of net position and the statement of revenues, expenses and changes in net position.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

The following table provides a summary of the Academy's nets position for 2017 as compared to 2016:

	2017	2016
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$ 94,897	\$ 86,826
Accounts Receivable	8,525	5,862
Intergovernmental Receivable	64,672	79,159
Prepaid Expense	-	26,542
Total Assets	168,094	198,389
Noncurrent Assets:		
Capital Assets, net of Accumulated Depreciation	120,523	112,352
Total Noncurrent Assets	120,523	112,352
Total Assets	288,617	310,741
Deferred Outflows of Resources	1,661,891	1,091,205
Liabilities:		
Current Liabilities:		
Accounts Payable, Trade	101,946	61,420
Accounts Payable, Related Party	190,314	126,490
School Fundraiser	-	660
Accrued Expenses	5,879	48,427
Advances Payable	165,000	479,600
Total Current Liabilities	463,139	716,597
Noncurrent Liabilities:		
Net Pension Liability	3,681,609	2,583,689
Noncurrent Portion of Long-term Debt	282,001	300,000
Total Noncurrent Liabilities	3,963,610	2,883,689
Total Liabilities	4,426,749	3,600,286
Deferred Inflows of Resources	15,003	55,349
Net Position:		
Invested in Capital Assets	120,523	112,352
Unrestricted Net Position	(2,611,767)	(2,366,041)
Total Net Position	\$ (2,491,244)	\$ (2,253,689)

Results of fiscal year 2017 indicate an ending net position deficit of (\$2,491,244), a decrease of \$237,555 over fiscal year 2016. Enrollment at the end of fiscal 2017 was 343 students as compared to 317 at the end of fiscal 2016. Enrollment as of November 2017 is 505. Lorain Preparatory Academy saw enrollment

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

increases in both fiscal years 2016 and 2017. The Academy expanded to incorporate the portion of the facility vacated by the Academy of Arts and Sciences. The enrollment capacity for the facility is 550.

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

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

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

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

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

Current year changes in deferred outflows/ inflows of resources and the net pension liability are the result of changes in accruals related to GASB 68.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

The following table reflects the changes in net position for the fiscal year 2017 as compared to 2016:

**Table 2
Statement of Revenues, Expenses, and Changes in Net Position**

Operating Revenues:	2017	2016
State Aid	\$ 2,929,004	\$ 2,583,814
Miscellaneous	-	1,117
Total Operating Revenues	2,929,004	2,584,931
Operating Expenses:		
Purchased Services	3,771,252	2,925,215
Depreciation	31,515	26,869
Supplies	112,964	119,868
Other Operating Expenses	9,954	33,808
Total Operating Expenses	3,925,685	3,105,760
Operating Loss	(996,681)	(520,829)
Nonoperating Revenues and Expenses:		
Debt Forgiveness	-	1,146,873
Federal and State Restricted Grants	821,443	642,043
Interest Expense	(62,317)	(73,085)
Net Nonoperating Revenues and Expenses	759,126	1,715,831
Change in Net Position	(237,555)	1,195,002
Net Position, Beginning of Year	(2,253,689)	(3,448,691)
Net Position, End of Year	\$ (2,491,244)	\$ (2,253,689)

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and invoices for payroll of the Academy's staff. The increase in operating revenues and expenses is based on the increase in enrollment.

State Aid increased in 2017 due to increased enrollment. Non-Operating Revenues decreased in 2017 due to prior year recognition of debt forgiveness. Purchased Services increased in 2017 due to growth in enrollment and the amount of expense recognized under GASB 68.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

BUDGET

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five-year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

CAPITAL ASSETS

At the end of fiscal year 2017, the Academy had \$120,523 invested in capital assets (net of accumulated depreciation) for computers and software, furniture and equipment, and Leasehold Improvements. The following table shows fiscal year 2017 compared to 2016:

Capital Assets at June 30 (Net of Depreciation)

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Furniture & Equipment	\$ 53,803	\$53,055	\$ 748
Leasehold Improvements	34,241	11,000	23,241
Computer & Software	<u>32,479</u>	<u>48,297</u>	<u>(15,818)</u>
Net Capital Assets	<u>\$ 120,523</u>	<u>\$112,352</u>	<u>\$ 8,171</u>

The increase represents current year additions less the annual depreciation charge. There were no asset disposals during the year. For further information regarding the Academy's capital assets, refer to Note 5 of the basic financial statements.

DEBT

At June 30, 2017, the Academy had \$165,000 in advances outstanding from Charter School capital which are due within one year. The Academy also had a Notes Payable to Accel Schools at June 30, 2017 in the amount \$282,001. For further information regarding the Academy's debt, refer to Note 6 and Note 7 to the basic financial statements.

OPERATIONS

Lorain Preparatory Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in third through eighth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact the Academy's Fiscal Officer, C. David Massa, CPA of Massa Financial Solutions, LLC, 4125 Leavitt Rd, Lorain, Ohio 44503.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 94,897
Accounts Receivable	8,525
Intergovernmental Receivable	64,672
Total Current Assets	<u>168,094</u>

Noncurrent Assets:

Capital Assets, net of Accumulated Depreciation	120,523
	<u>120,523</u>

Total Assets 288,617

Deferred Outflows of Resources 1,661,891

Liabilities:

Current Liabilities:

Accounts Payable, Trade	101,946
Accounts Payable, Related Party	190,314
Accrued Expenses	5,879
Advances Payable	165,000
Total Current Liabilities	<u>463,139</u>

Noncurrent Liabilities:

Net Pension Liability	3,681,609
Noncurrent Portion of Long-term Debt	282,001
Total Noncurrent Liabilities	<u>3,963,610</u>

Total Liabilities 4,426,749

Deferred Inflows of Resources 15,003

Net Position:

Invested in Capital Assets	120,523
Unrestricted Net Position	(2,611,767)
Total Net Position	<u>\$ (2,491,244)</u>

See Accompanying Notes to the Basic Financial Statements

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

Operating Revenues:	
State Aid	\$ 2,929,004
Total Operating Revenues	<u>2,929,004</u>
Operating Expenses:	
Purchased Services	3,771,252
Depreciation	31,515
Supplies	112,964
Other Operating Expenses	9,954
Total Operating Expenses	<u>3,925,685</u>
Operating Loss	(996,681)
Non-Operating Revenues and Expenses:	
Federal and State Restricted Grants	821,443
Interest Expense	(62,317)
Net Non-operating Revenues and Expenses	<u>759,126</u>
Change in Net Position	(237,555)
Net Position Beginning of Year	<u>(2,253,689)</u>
Net Position End of Year	<u>\$ (2,491,244)</u>

See Accompanying Notes to the Basic Financial Statements

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

CASH FLOWS FROM OPERATING ACTIVITIES

State Aid Receipts	\$ 2,929,004
Cash Payments to Suppliers for Goods and Services	<u>(3,322,261)</u>
Net Cash Used For Operating Activities	<u>(393,257)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Charter School Capital Proceeds	1,663,600
Charter School Capital Program Fees	(55,023)
Charter School Capital Principal Payments	(1,978,200)
Note Payable Principal Payments	(17,999)
Note Payable Interest Payments	(7,294)
Federal and State Grant Receipts	<u>835,930</u>
Net Cash Provided By Noncapital Financing Activities	<u>441,014</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	<u>(39,686)</u>
Net Cash Used For Capital and Related Financing Activities	<u>(39,686)</u>

Net Increase in Cash and Cash Equivalents 8,071

Cash and Cash Equivalents - Beginning of the Year	<u>86,826</u>
Cash and Cash Equivalents - Ending of the Year	<u><u>\$ 94,897</u></u>

See Accompanying Notes to the Basic Financial Statements

(Continued)

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017
(Continued)

Reconciliation of Operating Loss to Net Cash Used For Operating Activities

Operating Loss	\$	(996,681)
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Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities

Depreciation		31,515
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:		
(Increase)/ Decrease in Receivables		(2,663)
(Increase)/ Decrease in Deferred Outflows		(570,686)
Increase/ (Decrease) in Deferred Inflows		(40,346)
Increase/ (Decrease) in Net Pension Liability		1,097,920
(Increase)/ Decrease in Prepaid Expense		26,542
Increase/ (Decrease) in Accounts Payable, Trade		40,526
Increase/ (Decrease) in Accounts Payable, Related Party		63,824
Increase/ (Decrease) in Accrued Expenses/ School Fundraiser		(43,208)
Net Cash Used For Operating Activities	\$	<u>(393,257)</u>

See Accompanying Notes to the Basic Financial Statements

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 1 – DESCRIPTION OF ACADEMY

The Lorain Preparatory Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades 3-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy. The Academy is a federally recognized 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702.

The Academy was approved for operation under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2010. This contract was extended for two additional five academic years expiring June 30, 2020. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a Governing Board that consists of five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy contracts with Accel Schools for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (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 more significant of the Academy’s accounting policies are described below.

Basis of Presentation - The Academy’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. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

Measurement Focus - The deferred outflows/inflows of resources are accounted for using a flow of economic resources measurement focus. All assets and deferred outflow of resources and liabilities and deferred inflow of resources associated with the operation of the Academy are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in net position. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy’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 Academy 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five-year forecast. The Academy’s contract with its sponsor also requires an annual financial plan.

Cash and Cash Equivalents - Cash received by the Academy is reflected as “Cash and Cash Equivalents” on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2017.

Prepaid Items - The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2017, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Capital Assets - The Academy’s capital assets during fiscal year 2017 consisted of computers, leasehold improvements, furniture and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition value as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy 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.

All capital assets are depreciated over their remaining useful lives. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Furniture & Equipment	5-20 years
Computers & Software	5 years
Leasehold Improvements	Remaining Life of Lease

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position - Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. As of June 30, 2017, there were no net position restrictions. Net position invested in capital assets consist of capital assets minus accumulated depreciation.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

Deferred Inflows and Deferred Outflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 10)

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

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

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

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of New Accounting Principles (continued)

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

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

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

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

NOTE 3 - DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2017, the book balance was \$94,897 and the bank balance of Academy's deposits was \$102,598. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

NOTE 4 - RECEIVABLES

At June 30, 2017, the Academy had intergovernmental receivables of \$64,672. These receivables represent monies due from State Foundation payment, Title I, Title IIA, and School Counselor Grant, which was not received as of June 30, 2017. At June 30, 2017, the Academy also had accounts receivables in the amount of \$8,525. These receivables represent monies for shared employee expense, which was not received as of June 30, 2017. The receivables are expected to be collected within one year.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 5 – CAPITAL ASSETS

The capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 06/30/16	Additions	Deletions	Balance 06/30/17
Capital Assets:				
Computers & Software	\$ 152,279	\$ -	\$ -	\$ 152,279
Furniture & Equipment	99,270	13,500	-	112,770
Leasehold Improvements	12,000	26,186	-	38,186
	<u>263,549</u>	<u>39,686</u>	<u>-</u>	<u>303,235</u>
Total Capital Assets				
Less Accumulated Depreciation:				
Computers & Software	(103,982)	(15,818)	-	(119,800)
Furniture & Equipment	(46,215)	(12,752)	-	(58,967)
Leasehold Improvements	(1,000)	(2,945)	-	(3,945)
Total Accumulated Depreciation	<u>(151,197)</u>	<u>(31,515)</u>	<u>-</u>	<u>(182,712)</u>
Total Capital Assets, Net	<u>\$ 112,352</u>	<u>\$ 8,171</u>	<u>\$ -</u>	<u>\$ 120,523</u>

NOTE 6 – ADVANCES PAYABLE

In previous years, the Academy entered into an agreement with Charter School Capital to receive advances against its future foundation payments. The amount advanced in fiscal year 2017 was \$1,663,600. Total principal payments made during fiscal year end were \$1,978,200. Total interest paid was \$55,023.

A summary of debt obligations for the Academy at June 30, 2017, is as follows:

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017
Charter School Capital	<u>\$ 479,600</u>	<u>\$ 1,663,600</u>	<u>\$ (1,978,200)</u>	<u>\$ 165,000</u>

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 7 – LONG-TERM OBLIGATIONS

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

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017	Due within One Year
Net Pension Liability:					
STRS	\$ 2,356,906	\$ 1,060,448	\$ -	\$ 3,417,354	\$ -
SERS	226,783	37,472	-	264,255	-
Total Net Pension Liability	<u>2,583,689</u>	<u>1,097,920</u>	<u>-</u>	<u>3,681,609</u>	<u>-</u>
Accel Schools - Notes Payable	<u>300,000</u>	<u>-</u>	<u>(17,999)</u>	<u>282,001</u>	<u>-</u>
Total Long-Term Obligations	<u>\$ 2,883,689</u>	<u>\$ 1,097,920</u>	<u>\$ (17,999)</u>	<u>\$ 3,963,610</u>	<u>\$ -</u>

During the fiscal year ended June 30, 2016, the Academy negotiated with its new management company Accel Schools to reclassify certain related party accounts payable and long-term obligations held by the former management company, Mosaica Education into a single note in the amount of \$300,000. Under this agreement, Accel forgave \$1,146,873 worth of related party accounts payable and long-term obligations. During the current fiscal year, the Academy made early principal payments per a clause in the note that allows for early principal repayment. Principal payments in 2017 totaled \$17,999 and interest payments totaled \$7,294.

The following table represents the Academy’s obligations under the note:

Promissory Note		
Year Ending June 30:	Principal	Interest
2018	\$ -	\$ 7,500
2019	-	7,500
2020	-	7,500
2021	-	7,500
2022	-	7,500
2023-2027	-	37,500
2028-2030	282,001	22,500
Total	<u>\$ 282,001</u>	<u>\$ 97,500</u>

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 8 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Academy contracted with the Hartford Casualty Insurance Company.

Settled claims have not exceeded this commercial coverage in the past three years and there have been no significant reductions in insurance coverage from the prior year.

General Liability:	
Each Occurrence	\$ 1,000,000
Aggregate Limit	\$ 2,000,000
Products - Completed Operations Aggregate Limit	\$ 2,000,000
Medical Expense Limit - Any One Person/Occurrence	\$ 15,000
Damage to Rented Premises - Each Occurrence	\$ 500,000
Personal and Advertising Injury	\$ 1,000,000
Automobile Liability:	
Combined Single Limit	\$ 1,000,000
Building	\$ 1,370,000
Business Personal Property	\$ 1,000,000
Excess/Umbrella Liability:	
Each Occurrence	\$ 6,000,000
Aggregate Limit	\$ 6,000,000

NOTE 9 – PURCHASED SERVICES

For the year ended June 30, 2017, purchased service expenses were for the following services:

<u>Purchased Services</u>	<u>Amount</u>
Personnel Services	\$2,475,518
Food Service	200,008
Building Services	359,630
Communications	19,247
Travel and Meetings	4,036
Professional and Technical Services	627,408
Transportation	85,405
Total	<u><u>\$3,771,252</u></u>

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS

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

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

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

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

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

School Employees Retirement System (SERS)

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

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

School Employees Retirement System (SERS) - continued

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The Academy's contractually required contribution to SERS was \$14,886 for fiscal year 2017.

State Teachers Retirement System (STRS)

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

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) - continued

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) (continued)

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

The Academy’s contractually required contribution to STRS was \$191,395 for fiscal year 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Academy's employer allocation percentage of the net pension liability was based on the employer’s share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$264,255	\$3,417,354	\$3,681,609
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00361050%	0.01020928%	
Prior Measurement Date	<u>0.00397440%</u>	<u>0.00852806%</u>	
Change in Proportionate Share	<u>-0.00036390%</u>	<u>0.00168122%</u>	
Pension Expense	\$54,855	\$638,314	\$693,169

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the Academy’s proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) (continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$3,564	\$138,077	\$141,641
Net difference between projected and actual earnings on pension plan investments	21,797	283,733	305,530
Changes of assumptions	17,641	-	17,641
Change in proportionate and differences between Academy contributions and proportionate share of contributions	49,672	941,126	990,798
Academy contributions subsequent to the measurement date	14,886	191,395	206,281
Total Deferred Outflows of Resources	<u>\$107,560</u>	<u>\$1,554,331</u>	<u>\$1,661,891</u>
Deferred Inflows of Resources			
Changes in proportion and differences between Academy contributions and proportionate share of contributions	<u>\$ 15,003</u>	<u>\$ -</u>	<u>\$ 15,003</u>

\$206,281 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 28,564	\$ 349,298	\$ 377,862
2019	28,546	349,298	377,844
2020	14,296	458,173	472,469
2021	6,265	206,167	212,432
Total	<u>\$77,671</u>	<u>\$1,362,936</u>	<u>\$1,440,607</u>

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

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

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

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

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – SERS (continued)

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

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

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

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Academy’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Academy's proportionate share of the net pension liability	\$349,858	\$264,255	\$192,603

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	<u>7.61 %</u>

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – STRS (continued)

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

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

Rate - The following table presents the Academy's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$4,541,385	\$3,417,354	\$2,469,167

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

NOTE 11 – POSTEMPLOYMENT BENEFITS

School Employees Retirement System (SERS)

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

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

School Employees Retirement System (SERS) (continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the Academy's surcharge obligation was \$663.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The Academy's contributions for health care for the fiscal year ended June 30, 2015, was \$981. The full amount has been contributed for fiscal year 2015.

State Teachers Retirement Systems (STRS)

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

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

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 12 - CONTINGENCIES

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

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

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

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

In addition, the Academy's contracts with their Sponsor and Management Company 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 Academy.

NOTE 13 – BUILDING LEASES

In November 2015, the Academy entered into a lease for facilities from Leavitt Road Properties LLC., for an initial term of 15 years. In 2017, the lease was revised by the landlord to let a portion of the building. The lease has an annual base rate of \$162,000 annually for the first three years. Rent expense paid in 2017 was \$162,000.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 13 – BUILDING LEASES (continued)

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$162,000
2019	162,000
2020	175,500
2021	175,500
2022	175,500
2023-2027	990,888
2028-2031	<u>892,344</u>
Total minimum lease payments	<u>\$2,733,732</u>

NOTE 14 - SPONSOR

The Academy was approved for operation under a contract with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing July 1, 2005. Subsequent to June 2010, the contract was extended for two five year terms through June 30, 2020. As part of this contract, the Sponsor is entitled to 3% of the total state foundation funds. Total amount due and paid for fiscal year 2016 was \$84,968.

NOTE 15 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES

The Academy entered into an agreement with Accel Schools, a management company, to provide legal, financial, and other management support services for fiscal year 2017. The agreement was for a period of five years beginning July 1, 2016. Management fees are calculated as 12.5% of the Academy's State Revenue, plus \$20,000 for managing Federal Funds. The total amount due from the Academy for the fiscal year ending June 30, 2017 was \$373,368 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Changes in Net Position.

Also per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred by Accel Schools. These expenses include rent, salaries of Accel employees working in at the Academy and other costs related to providing education and administrative services. The total amount billed to the Academy inclusive of management fees during fiscal year 2017 was \$2,556,676.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY

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

NOTE 15 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES (continued)

The following table represents a summary of the management company expenses during fiscal year 2017:

		Regular Instruction (1100 Function Codes)	Special Instruction (1200 Function Codes)	Support Services (2000 Function Codes)	Total
		1100	1200	2000	
<i>Direct Expenses:</i>					
Salaries & Wages (100 Object Codes)	100	\$ 1,123,310	\$ 202,624	\$ 223,262	\$ 1,549,196
Employees' Benefits (200 Object Codes)	200	\$ 327,666	\$ 71,803	\$ 53,883	\$ 453,351
Professional & Technical Services (410 Object Codes)	410			\$ 26,594	\$ 26,594
Other Supplies (510 Object Codes)	510	\$ 25,300		\$ 4,675	\$ 29,975
Total Direct Expenses		\$ 1,476,276	\$ 274,427	\$ 308,414	\$ 2,059,117
<i>Indirect Expenses:</i>					
Overhead				\$ 40,807	\$ 40,807
Total Expenses		\$ 1,476,276	\$ 274,427	\$ 349,221	\$ 2,099,924

Accel Schools charges expenses benefiting more than one school (i.e. overhead) are pro-rated based on full time equivalent (FTE) head count as of June 30, 2017 by each school it manages.

NOTE 16 – MANAGEMENT'S PLAN

For fiscal year 2017, the Academy had a net position deficit of \$(2,491,244). The Academy's net deficit in fiscal year 2017 was a decline from the \$(2,253,689) net deficit in fiscal 2016. Enrollment increased in fiscal year 2017 to 343, up from 317 in fiscal year 2016. The Academy's ability to maintain a stable administrative and instructional team along with active advertising via print, radio, mailings and through referrals of current parents is anticipated to help produce the likelihood of future enrollment growth leading to surpluses and provide an opportunity for the school to recover from its prior deficits.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.00361050%	0.00397440%	0.00232500%	0.00232500%
Academy's Proportionate Share of the Net Pension Liability	\$ 264,255	\$ 226,783	\$ 117,667	\$ 138,260
Academy's Covered-Employee Payroll	\$ 116,400	\$ 119,649	\$ 68,232	\$ 39,645
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	227.02%	189.55%	172.45%	348.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.01020928%	0.00852806%	0.00522397%	0.00522397%
Academy's Proportionate Share of the Net Pension Liability	\$ 3,417,354	\$ 2,356,906	\$ 1,270,650	\$ 1,513,590
Academy's Covered Payroll	\$ 1,010,450	\$ 889,757	\$ 574,800	\$ 470,431
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	338.20%	264.89%	221.06%	321.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year end.

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
SCHOOL EMPLOYER'S RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 14,886	\$ 16,296	\$ 15,769	\$ 9,457	\$ 5,487
Contributions in Relation to the Contractually Required Contribution	\$ (14,886)	\$ (16,296)	\$ (15,769)	\$ (9,457)	\$ (5,487)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered Payroll	\$ 106,329	\$ 116,400	\$ 119,649	\$ 68,232	\$ 39,645
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 5,494	\$ 4,921	\$ 5,503	\$ 4,244	\$ 3,864
Contributions in Relation to the Contractually Required Contribution	\$ (5,494)	\$ (4,921)	\$ (5,503)	\$ (4,244)	\$ (3,864)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 40,847	\$ 39,148	\$ 40,642	\$ 43,130	\$ 39,348
Contributions as a Percentage of Covered-Employee Payroll	13.45%	12.57%	13.54%	9.84%	9.82%

LORAIN PREPARATORY ACADEMY - LORAIN COUNTY, OHIO

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
STATE TEACHER'S RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

	2017	2016	2015	2014	2013
Contractually Required Contribution	\$ 191,395	\$ 141,463	\$ 124,566	\$ 74,724	\$ 61,156
Contributions in Relation to the Contractually Required Contribution	\$ (191,395)	\$ (141,463)	\$ (124,566)	\$ (74,724)	\$ (61,156)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered-Employee Payroll	\$ 1,367,107	\$ 1,010,450	\$ 889,757	\$ 574,800	\$ 470,431
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%

	2012	2011	2010	2009	2008
Contractually Required Contribution	\$ 66,340	\$ 65,820	\$ 72,837	\$ 70,895	\$ 46,647
Contributions in Relation to the Contractually Required Contribution	\$ (66,340)	\$ (65,820)	\$ (72,837)	\$ (70,895)	\$ (46,647)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered-Employee Payroll	\$ 510,308	\$ 506,308	\$ 560,285	\$ 545,346	\$ 358,823
Contributions as a Percentage of Covered-Employee Payroll	13.00%	13.00%	13.00%	13.00%	13.00%

December 26, 2017

To the Board of Directors
Lorain Preparatory Academy
Lorain County, Ohio
4125 Leavitt Road
Lorain, Ohio 44053

**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 Lorain Preparatory Academy, Lorain County, Ohio (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 26, 2017, in which we noted the Academy has suffered recurring losses from operations and has a net position deficit of \$2,491,244, including the net effect of net pension liability and related accruals totaling \$2,034,721, that raises substantial doubt about its ability to continue as a going concern.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy'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 Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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

Lorain Preparatory Academy
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
Page 2 of 2

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Cambridge, Ohio

December 26, 2017

To the Board of Directors
Lorain Preparatory Academy
Lorain County, Ohio
4125 Leavitt Road
Lorain, Ohio 44053

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

Report on Compliance for Each Major Federal Program

We have audited the Lorain Preparatory Academy's, Lorain County, Ohio (the "Academy") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2017. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Rea & Associates, Inc.

Cambridge, Ohio

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA #	Grant Year	Expenses	Total Provided to Subrecipients
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2017	\$ 305,075	\$ -
Title I School Improvement Sub A	84.010	2017	92,579	-
Total Title I Grants			<u>397,654</u>	<u>-</u>
Special Education Cluster:				
IDEA Part B	84.027	2017	71,475	-
Total Special Education Cluster			<u>71,475</u>	<u>-</u>
Title II-A Improving Teacher Quality	84.367	2017	56,019	-
<i>Total U.S. Department of Education</i>			<u>525,148</u>	<u>-</u>
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Cash Assistance:</i>				
School Breakfast Program	10.553	2017	86,955	-
National School Lunch Program	10.555	2017	157,192	-
Total Child Nutrition Cluster			<u>244,147</u>	<u>-</u>
<i>Total U.S. Department of Agriculture</i>			<u>244,147</u>	<u>-</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 769,295</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(B)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE A - BASIS OF PRESENTATION

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - TRANSFERS

The Academy generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, an Academy can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the Academy a total of 27 months to spend the assistance. During fiscal year 2017, the ODE authorized the following transfers:

CFDA Number / Grant Title	Grant Year	Transfer Out	Transfer In
84.010 Title I	2016	\$ 58,690	
84.010 Title I	2017		\$ 58,690
84.010 Title I School Improvement Sub A	2016	27,579	
84.010 Title I School Improvement Sub A	2017		27,579
84.367 Title II-A Improving Teacher Quality	2016	10,636	
84.367 Title II-A Improving Teacher Quality	2017		10,636
		<u>\$ 96,904</u>	<u>\$ 96,904</u>

NOTE D - CHILD NUTRITION CLUSTER

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

**LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR §200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None were noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted.

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Dave Yost • Auditor of State

LORAIN PREPARATORY ACADEMY

LORAIN 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
MARCH 1, 2018**