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Lorain Preparatory Academy
Lorain County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2018

CPAs and business consultants
www.reacpa.com

OHIO AUDITOR OF STATE
KEITH FABER

Board of Trustees
Lorain Preparatory Academy
4125 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, 2017 through June 30, 2018. 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.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

February 26, 2019

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LORAIN PREPARATORY ACADEMY
LORAIN COUNTY, OHIO

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December 28, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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, 2018, 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

As described in Note 16 to the financial statements, the Academy restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and Financial reporting for Postemployment Benefits other than Pensions." Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 17 to the financial statements, the Academy has previously suffered recurring losses from operations and has a net position deficit of $1,607,258 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, net OPEB liability and related accruals totaling $1,547,775. Note 17 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*, *Schedule of the Academy's Proportionate Share of the Net Pension Liability, Schedule of the Academy's Contributions-Pension, Schedule of the Academy's Proportionate Share of the Net OPEB Liability,* and the *Schedule of the Academy's Contributions - OPEB* on pages 5–10, 45-46, 47-48, 49-50, and 51-52, 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 28, 2018 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 the effectiveness of the Academy's 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.

Rea & Associates, Inc.

Cambridge, Ohio

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

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, 2018. 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

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

- Net position increased $1,525,026.
- Total revenue increased from $3,750,447 in fiscal year 2017 to $5,116,728 in fiscal year 2018.
- Operating expenses decreased from $3,925,685 in fiscal year 2017 to $3,574,571 in fiscal year 2018.
- The Academy implemented GASB 75, which reduced beginning net position as previously reported by $641,040.
- A decrease in net pension liability and net OPEB liability substantially decreased purchased services expenses compared to fiscal year 2017. See further explanation after Table 1.

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.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

The following table provides a summary of the Academy's net position for 2018 as compared to 2017:

Table 1
Statement of Net Position

	2018	Restated 2017
Assets:		
Current Assets:		
Cash and Cash Equivalents	$ 298,553	$ 94,897
Accounts Receivable	-	8,525
Intergovernmental Receivable	26,248	64,672
Total Assets	324,801	168,094
Noncurrent Assets:		
Capital Assets, net of Accumulated Depreciation	151,791	120,523
Total Noncurrent Assets	151,791	120,523
Total Assets	476,592	288,617
Deferred Outflows of Resources	2,398,146	1,664,074
Liabilities:		
Current Liabilities:		
Accounts Payable, Trade	118,246	101,946
Accounts Payable, Related Party	183,631	190,314
Accrued Expenses	35,651	5,879
Advances Payable	-	165,000
Total Current Liabilities	337,528	463,139
Noncurrent Liabilities:		
Net Pension Liability	3,162,928	3,681,609
Net OPEB Liability	575,279	643,223
Noncurrent Portion of Long-term Debt	198,547	282,001
Total Noncurrent Liabilities	3,936,754	4,606,833
Total Liabilities	4,274,282	5,069,972
Deferred Inflows of Resources	207,714	15,003
Net Position:		
Invested in Capital Assets	151,791	120,523
Unrestricted Net Position	(1,759,049)	(3,252,807)
Total Net Position	$ (1,607,258)	$ (3,132,284)

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the Academy adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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

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

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans

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

In accordance with GASB 68 and GASB 75, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Academy is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($2,491,244) to ($3,132,284).

Statement of Revenues, Expenses and Changes in Net Position **-** Table 2 shows the changes in Net Position for fiscal year 2018, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors. Overall, the increase in Operating Revenues was a result of more students being enrolled over the prior year. Increased enrollment was also a driving force behind the increase in Contributions and Donations for the Academy. There were also corresponding increases across most of the expense categories during fiscal year 2018 due to more students needing to be served and certain expenses being based on a percentage of revenues, which overall were higher compared to the prior year, with the exception of purchased services, which decreased based on change in net pension/OPEB liabilities discussed in Notes 10 and 11.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

The following table reflects the changes in net position for the fiscal year 2018 as compared to 2017:

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

	2018	2017
Operating Revenues		
State Aid	$ 4,308,792	$ 2,929,004
Total Operating Revenues	4,308,792	2,929,004
Operating Expenses		
Purchased Services	3,286,064	3,771,252
Depreciation	45,697	31,515
Supplies	186,612	112,964
Other Operating Expenses	56,198	9,954
Total Operating Expenses	3,574,571	3,925,685
Operating Income (Loss)	734,221	(996,681)
Non-Operating Revenues (Expenses)		
Federal and State Restricted Grants	807,936	821,443
Interest Expense	(17,131)	(62,317)
Total Non-Operating Revenues (Expenses)	790,805	759,126
Change in Net Position	$ 1,525,026	$ (237,555)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $2,183 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $126,501. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$ 3,574,571
Negative OPEB expense under GASB 75	126,501
2018 contractually required contribution	2,583
Adjusted 2018 program expenses	3,703,655
Total 2017 program expenses under GASB 45	3,925,685
Decrease in program expenses not related to OPEB	$ 222,030

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Current assets represent cash and cash equivalents and intergovernmental receivables. Current liabilities represent accounts payable and accrued expenses at fiscal year-end.

Cash and cash equivalents increased in 2018 by $203,656 due to an increase in State Foundation receipts. The increase in revenue is due to the increase in the number of students. Current liabilities decreased in 2018 by $125,611 primarily to the decrease in advances payable.

CAPITAL ASSETS

At the end of fiscal year 2018, the Academy had $151,791 invested in capital assets (net of accumulated depreciation) for computers and software, furniture and equipment, and Leasehold Improvements. The following table shows fiscal year 2018 compared to 2017:

Capital Assets at June 30 (Net of Depreciation)

	2018	2017	Change
Furniture & Equipment	$ 92,931	$53,803	$ 39,128
Leasehold Improvements	42,198	34,241	7,957
Computer & Software	16,662	32,479	(15,817)
Net Capital Assets	$ 151,791	$120,523	$ 31,268

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, 2018, the Academy had a Notes Payable to Accel Schools at June 30, 2018 in the amount $198,547. For further information regarding the Academy's debt, refer to Note 6 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,s 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, 2018

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 298,553
Intergovernmental Receivable	26,248
Total Current Assets	324,801
Noncurrent Assets:	
Capital Assets, net of Accumulated Depreciation	151,791
	151,791
Total Assets	476,592
Deferred Outflows of Resources:	
Pension	2,265,517
OPEB	132,629
Total Deferred Outflows of Resources	2,398,146
Liabilities:	
Current Liabilities:	
Accounts Payable, Trade	118,246
Accounts Payable, Related Party	183,631
Accrued Expenses	35,651
Total Current Liabilities	337,528
Noncurrent Liabilities:	
Net Pension Liability	3,162,928
Net OPEB Liability	575,279
Noncurrent Portion of Long-term Debt	198,547
Total Noncurrent Liabilities	3,936,754
Total Liabilities	4,274,282
Deferred Inflows of Resources:	
Pension	137,981
OPEB	69,733
Total Deferred Inflows of Resources	207,714
Net Position:	
Invested in Capital Assets	151,791
Unrestricted Net Position	(1,759,049)
Total Net Position	$ (1,607,258)

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, 2018

Operating Revenues:	
State Aid	$ 4,308,792
Total Operating Revenues	4,308,792
Operating Expenses:	
Purchased Services	3,286,064
Depreciation	45,697
Supplies	186,612
Other Operating Expenses	56,198
Total Operating Expenses	3,574,571
Operating Income	734,221
Non-Operating Revenues and (Expenses:)	
Federal and State Restricted Grants	807,936
Interest Expense	(17,131)
Net Non-operating Revenues and (Expenses)	790,805
Change in Net Position	1,525,026
Net Position Beginning of Year, Restated	(3,132,284)
Net Position End of Year	$ (1,607,258)

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
State Aid Receipts	$	4,318,206
Cash Payments to Suppliers for Goods and Services		(4,608,945)
Net Cash Used For Operating Activities		(290,739)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Charter School Capital Program Fees		(10,290)
Charter School Capital Principal Payments		(165,000)
Note Payable Principal Payments		(83,454)
Note Payable Interest Payments		(6,842)
Federal and State Grant Receipts		836,946
Net Cash Provided By Noncapital Financing Activities		571,360
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets		(76,965)
Net Cash Used For Capital and Related Financing Activities		(76,965)
Net Increase in Cash and Cash Equivalents		203,656
Cash and Cash Equivalents - Beginning of the Year		94,897
Cash and Cash Equivalents - Ending of the Year	$	298,553

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, 2018
(Continued)

Reconciliation of Operating Income to Net Cash Used For Operating Activities		
Operating Income	$	734,221
Adjustments to Reconcile Operating Income to Net Cash Used For Operating Activities		
Depreciation		45,697
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:		
(Increase)/ Decrease in Receivables		17,940
(Increase)/ Decrease in Deferred Outflows		(734,072)
Increase/ (Decrease) in Deferred Inflows		192,711
Increase/ (Decrease) in Net Pension/OPEB Liability		(586,625)
Increase/ (Decrease) in Accounts Payable, Trade		16,300
Increase/ (Decrease) in Accounts Payable, Related Party		(6,683)
Increase/ (Decrease) in Accrued Expenses		29,772
Net Cash Used For Operating Activities	$	(290,739)

See Accompanying Notes to the Basic Financial Statements

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 accounting and financial reporting treatment is 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

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

Cash and Cash Equivalents - Cash received by the 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, 2018.

Prepaid Items - The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2018, 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 2018 consisted of computers and software, leasehold improvements, furniture and 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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position - As of June 30, 2018, 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 and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 10 and 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Academy, deferred inflows of resources include pension and OPEB. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the statement of net position. (See Note 10 and 11)

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

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.

NOTE 3 - CASH AND CASH EQUIVALENTS

The Academy classifies deposits by category of risk as defined in GASB Statement No.3 “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” as amended by GASB Statement No.40, “Deposit, and Investment Risk Disclosures”.

The Academy maintains its cash balances at one financial institution, Huntington Bank in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, per qualifying account. At June 30, 2018, the book amount of the Academy’s deposits was $298,553 and the bank balance was $364,762.

NOTE 4 - RECEIVABLES

At June 30, 2018, the Academy had intergovernmental receivables of $26,248. These receivables represent monies due from State Foundation payment, Title I, and Title IIA, which was not received as of June 30, 2018. The receivables are expected to be collected within one year.

NOTE 5 – CAPITAL ASSETS

The capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance 06/30/17	Additions	Deletions	Balance 06/30/18
Capital Assets:				
Computers & Software	$ 152,279	$ -	$ -	$ 152,279
Furniture & Equipment	112,770	64,850	-	177,620
Leasehold Improvements	38,186	12,115	-	50,301
Total Capital Assets	303,235	76,965	-	380,200
Less Accumulated Depreciation:				
Computers & Software	(119,800)	(15,818)	-	(135,618)
Furniture & Equipment	(58,967)	(25,722)	-	(84,689)
Leasehold Improvements	(3,945)	(4,157)	-	(8,102)
Total Accumulated Depreciation	(182,712)	(45,697)	-	(228,409)
Total Capital Assets, Net	$ 120,523	$ 31,268	$ -	$ 151,791

NOTE 6 – LONG-TERM OBLIGATIONS

The changes in the Academy's long-term obligations during fiscal year 2018 were as follows:

	Restated Balance 6/30/2017	Additions	Reductions	Balance 6/30/2018	Due within One Year
Post Employment Liability:					
Net Pension	$ 3,681,609	$ -	$ (518,681)	$ 3,162,928	$ -
Net OPEB	643,223	-	(67,944)	575,279	-
Total Post Employment Liability	4,324,832	-	(586,625)	3,738,207	-
Accel Schools - Notes Payable	282,001	-	(83,454)	198,547	-
Total Long-Term Obligations	$ 4,606,833	$ -	$ (670,079)	$ 3,936,754	$ -

NOTE 6 – LONG-TERM OBLIGATIONS (continued)

During the fiscal year ended June 30, 2017, 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 2018 totaled $83,454 and interest payments totaled $6,842.

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

Promissory Note		
Year Ending June 30:	Principal	Interest
2019	$ -	$ 7,500
2020	-	7,500
2021	-	7,500
2022	-	7,500
2023	-	7,500
2024-2028	-	37,500
2029-2030	198,547	15,000
Total	$ 198,547	$ 90,000

NOTE 7 – ADVANCES PAYABLE

In previous years, the Academy entered into an agreement with Charter School Capital to receive advances against its future foundation payments. There were no advances received in fiscal year 2018. Total principal payments made during fiscal year end were $165,000. Total interest paid was. $10,290.

A summary of debt obligations for the Academy at June 30, 2018, is as follows:

	Balance 6/30/2017	Additions	Reductions	Balance 6/30/2018
Charter School Capital	$ 165,000	$ 0	$ (165,000)	$ 0

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 2018, the Academy contracted with the Hartford Casualty Insurance Company.

NOTE 8 – RISK MANAGEMENT (continued)

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, 2018, purchased service expenses were for the following services:

Purchased Services	Amount
Personnel Services	$1,512,328
Professional Services	840,867
Property Services	385,264
Utilities	69,122
Travel & Meetings	11,108
Communications	39,393
Contractual Trade	305,653
Pupil Transportation	122,329
Total	$3,286,064

This amount includes negative pension/OPEB expense. Further explained in Notes 10 and 11.

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 accrual of accounting.

Plan Description - 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.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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, 2018, the allocation to pension, death benefits, and Medicare B was 14.00 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018

The Academy's contractually required contribution to SERS was $28,446 for fiscal year 2018.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - 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.

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12.0 of the 14.0 percent member rates goes to the DC Plan and the remaining 2.0 percent goes to the DB plan. Member contributions to the DC plan are allocated among investment choices by the member, and contributions to the DB plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contributions to STRS was $250,868 for fiscal year 2018.

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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.00361050%	0.01020928%	
Proportion of the Net Pension Liability Current Measurement Date	0.00349650%	0.01243525%	
Change in Proportionate Share	-0.00011400%	0.00222597%	
Proportionate Share of the Net Pension Liability	208,908	2,954,020	3,162,928
Pension Expense	7,752	(727,767)	(720,015)

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.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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.

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 8,990	$ 114,070	$ 123,060
Changes of assumptions	10,802	646,077	656,879
Changes in proportion and differences between contributions and proportionate share of contributions	26,352	1,179,912	1,206,264
Academy contributions subsequent to the measurement date	28,446	250,868	279,314
Total Deferred Outflows of Resources	$ 74,590	$ 2,190,927	$ 2,265,517
Deferred Inflows of Resources			
Differences between expected and actual experience	$ -	$ 23,808	$ 23,808
Net difference between projected and actual earnings on pension plan investments	991	97,487	98,478
Changes in proportion and differences between contributions and proportionate share of contributions	15,695	-	15,695
Total Deferred Inflows of Resources	$ 16,686	$ 121,295	$ 137,981

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

$279,314 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 year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ 23,648	$ 545,787	$ 569,435
2020	9,247	678,405	687,652
2021	1,433	412,642	414,075
2022	(4,870)	181,930	177,060
Total	$ 29,458	$ 1,818,764	$ 1,848,222

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.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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, 2017 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 most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major 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
International Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Stratagies	10.00	3.00
Total	100.00 %	

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

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 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	$289,910	$208,908	$141,052

Actuarial Assumptions – STRS

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

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

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

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – STRS

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:

Asset Class	Target Allocation *	Long-Term Expected Real Rate of Return **
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	7.61 %

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included.

Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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 calculated using the current period discount rate assumption of 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	$4,234,488	$2,954,020	$1,875,419

Assumption Changes since the Prior Measurement Date
The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes Since the Prior Measurement Date
Effective July 1, 2017, the COLA was reduced to zero.

NOTE 11 – POSTEMPLOYMENT BENEFITS

Net OPEB Liability

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

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

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

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 OPEB are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including OPEB.

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

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

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned.

For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Academy's surcharge obligation was $1,529.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was $2,583 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

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

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.00341108%	0.01020928%	
Proportion of the Net OPEB Liability Current Measurement Date	0.00335730%	0.01243525%	
Change in Proportionate Share	-0.00005378%	0.00222597%	
Proportionate Share of the Net OPEB Liability	90,101	485,178	575,279
OPEB Expense	4,542	(131,043)	(126,501)

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NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ -	$ 28,007	$ 28,007
Changes in proportion and differences between contributions and proportionate share of contributions	-	102,039	102,039
Academy contributions subsequent to the measurement date	2,583	-	2,583
Total Deferred Outflows of Resources	$ 2,583	$ 130,046	$ 132,629
Deferred Inflows of Resources			
Changes of assumptions	$ 8,550	$ 39,082	$ 47,632
Net difference between projected and actual earnings on OPEB plan investments	238	20,738	20,976
Changes in proportion and differences between contributions and proportionate share of contributions	1,125	-	1,125
Total Deferred Inflows of Resources	$ 9,913	$ 59,820	$ 69,733

$2,583 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (3,565)	$ 9,976	$ 6,411
2020	(3,565)	9,976	6,411
2021	(2,722)	9,976	7,254
2022	(61)	9,974	9,913
2023	-	15,160	15,160
Thereafter	-	15,164	15,164
Total	$ (9,913)	$ 70,226	$ 60,313

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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.

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions - SERS

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

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

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

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

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

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions - SERS

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

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
Total	100.00 %	

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

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Academy's proportionate share of the net OPEB liability	$108,809	$90,101	$75,280

	1% Decrease (6.5 % decreasing to 4.0%)	Current Trend Rate (7.5 % decreasing to 5.0%)	1% Increase (8.5 % decreasing to 6.0%)
Academy's proportionate share of the net OPEB liability	$73,110	$90,101	$112,589

Actuarial Assumptions – STRS

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

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

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

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions – STRS

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

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

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

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions – STRS

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:

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

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

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

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions – STRS

Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Academy's proportionate share of the net OPEB liability	$651,343	$485,178	$353,852

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	$337,081	$485,178	$680,091

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, 2018.

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 2018.

NOTE 12 – CONTINGENCIES (continued)

As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 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 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 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 2018, the lease was revised by the landlord to let a portion of the building. The lease has an annual base rate of $210,500 annually for the first three years. Rent expense paid in 2018 was $210,500.

Fiscal Year Ending June 30	Amount
2019	$ 162.000
2020	162,000
2021	175,500
2022	175,500
2023	175,500
2024-2028	990,888
2029-2031	892,344
Total minimum lease payments	$2,733,732

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 2017 was $125,817.

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 2018. The agreement was for a period of five years beginning July 1, 2017. 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, 2018 was $544,695 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 2018 was $2,672,426.

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

Lorain Preparatory Academy	Regular Instruction (1100 Function Codes)	Special Instruction (1200 Function Codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
Direct Expenses:					
Salaries & Wages (100 Object Codes)	$ 1,402,918	$ 229,471	$ 362,537	$ -	$1,994,926
Employees' Benefits (200 Object Codes)	75,858	12,321	25,012	-	113,191
Professional & Technical Services (410 Object Codes)	-	-	564,088	-	564,088
Supplies (500 Object Codes)	23,990	-	12,358	-	36,348
Other Direct Costs (All Other Object Codes)	-	-	6,738	-	6,738
Indirect Expenses:					
Overhead	-	-	487,955	-	487,955
Total Expenses	**$ 1,502,766**	**$ 241,792**	**$ 1,458,688**	**$ -**	**$3,203,246**

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, 2018 by each school it manages.

NOTE 16 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2018, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments.*

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

NOTE 16 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION (continued)

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interest in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the Academy's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

Net Position June 30, 2017	$ (2,491,244)
Adjustments:	
Net OPEB liability	(643,223)
Deferred Outflow - Payments Subsequent to Measurement Date	2,183
Restated Net Position June 30, 2017	$ (3,132,284)

Other than employer contributions subsequent to the measurement date, the Academy made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 17 - MANAGEMENT PLAN

For fiscal year 2018, the Academy had a net position deficit of $(1,607,258), which includes the impact of net pension/OPEB liabilities and related accruals. The Academy's net deficit in fiscal year 2018 improved from the $(3,132,284) restated net deficit in fiscal 2017. Enrollment decreased in fiscal year 2018 to 508, up from 343 in fiscal year 2017. 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 Academy 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 EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.00349650%	0.00361050%	0.00397440%	0.00232500%	0.00232500%
Academy's Proportionate Share of the Net Pension Liability	$ 208,908	$ 264,255	$ 226,783	$ 117,667	$ 138,260
Academy's Covered-Employee Payroll	$ 106,329	$ 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	196.47%	227.02%	189.55%	172.45%	348.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the Academy's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

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 FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.01243525%	0.01020928%	0.00852806%	0.00522397%	0.00522397%
Academy's Proportionate Share of the Net Pension Liability	$ 2,954,020	$ 3,417,354	$ 2,356,906	$ 1,270,650	$ 1,513,590
Academy's Covered Payroll	$ 1,367,107	$ 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	216.08%	338.20%	264.89%	221.06%	321.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the Academy's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

LORAIN PREPARATORY ACADEMY- LORAIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS - PENSION
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 28,446	$ 14,886	$ 16,296	$ 15,769	$ 9,457
Contributions in Relation to the Contractually Required Contribution	$ (28,446)	$ (14,886)	$ (16,296)	$ (15,769)	$ (9,457)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 210,711	$ 106,329	$ 116,400	$ 119,649	$ 68,232
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 5,487	$ 5,494	$ 4,921	$ 5,503	$ 4,244
Contributions in Relation to the Contractually Required Contribution	$ (5,487)	$ (5,494)	$ (4,921)	$ (5,503)	$ (4,244)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 39,645	$ 40,847	$ 39,148	$ 40,642	$ 43,130
Contributions as a Percentage of Covered Payroll	13.84%	13.45%	12.57%	13.54%	9.84%

See accompanying notes to the required supplementary information

LORAIN PREPARATORY ACADEMY- LORAIN COUNTY, OHIO

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

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 250,868	$ 191,395	$ 141,463	$ 124,566	$ 74,724
Contributions in Relation to the Contractually Required Contribution	$ (250,868)	$ (191,395)	$ (141,463)	$ (124,566)	$ (74,724)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 1,791,914	$ 1,367,107	$ 1,010,450	$ 889,757	$ 574,800
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 61,156	$ 66,340	$ 65,820	$ 72,837	$ 70,895
Contributions in Relation to the Contractually Required Contribution	$ (61,156)	$ (66,340)	$ (65,820)	$ (72,837)	$ (70,895)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 470,431	$ 510,308	$ 506,308	$ 560,285	$ 545,346
Contributions as a Percentage of Covered Payroll	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information

LORAIN PREPARATORY ACADEMY- LORAIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILTY
SCHOOL EMPLOYEE’S RETIREMENT SYSTEM OF OHIO
LAST TWO FISCAL YEARS

	2018	2017
Academy's Proportion of the Net OPEB Liability	0.00335730%	0.00341108%
Academy's Proportionate Share of the Net OPEB Liability	$ 90,101	$ 97,228
Academy's Covered Payroll	$ 106,329	$ 116,400
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	84.74%	83.53%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the Academy's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

LORAIN PREPARATORY ACADEMY- LORAIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILTY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST TWO FISCAL YEARS

	2018	2017
Academy's Proportion of the Net OPEB Liability	0.01243525%	0.01020928%
Academy's Proportionate Share of the Net OPEB Liability	$ 485,178	$ 545,995
Academy's Covered Payroll	$ 1,367,107	$ 1,010,450
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	54.03%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the Academy's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

LORAIN PREPARATORY ACADEMY- LORAIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS - OPEB
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 2,583	$ 2,183	$ 663	$ 981	$ 513
Contributions in Relation to the Contractually Required Contribution	$ (2,583)	$ (2,183)	$ (663)	$ (981)	$ (513)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 210,711	$ 106,329	$ 116,400	$ 119,649	$ 68,232
OPEB Contributions as a Percentage of Covered Payroll	1.23%	2.05%	0.57%	0.82%	0.75%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 310	$ 238	$ 596	$ 215	$ 1,937
Contributions in Relation to the Contractually Required Contribution	$ (310)	$ (238)	$ (596)	$ (215)	$ (1,937)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 39,645	$ 40,847	$ 39,148	$ 40,642	$ 43,130
OPEB Contributions as a Percentage of Covered Payroll	0.78%	0.58%	1.52%	0.53%	4.49%

See accompanying notes to the required supplementary information

LORAIN PREPARATORY ACADEMY- LORAIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS - OPEB
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ -	$ -	$ -	$ -	$ 5,748
Contributions in Relation to the Contractually Required Contribution	$ -	$ -	$ -	$ -	$ (5,748)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 1,791,914	$ 1,367,107	$ 1,010,450	$ 889,757	$ 574,800
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	1.00%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 4,704	$ 5,103	$ 5,063	$ 5,603	$ 5,453
Contributions in Relation to the Contractually Required Contribution	$ (4,704)	$ (5,103)	$ (5,063)	$ (5,603)	$ (5,453)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 470,431	$ 510,308	$ 506,308	$ 560,285	$ 545,346
OPEB Contributions as a Percentage of Covered Payroll	1.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information

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

Net Pension Liability

Changes of benefit terms - SERS:

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

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

Changes in assumptions - SERS:

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

Changes in benefit terms - STRS:

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. Effective for fiscal year 2018, the cost of living adjustment (COLA) was reduced to zero.

Changes in assumptions - STRS:

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

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

Net OPEB Liability

Changes in Assumptions – SERS

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

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

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

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

December 28, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 28, 2018, in which we noted the Academy restated their net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and Financial reporting for Postemployment Benefits other than Pensions", and the Academy has suffered recurring losses from operations and has a net position deficit of $1,607,258, including the net effect of net pension liability, net OPEB liability and related accruals totaling $1,547,775, 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.

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 28, 2018

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, 2018. 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, 2018.

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, 2018

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA #	Grant Year	Expenses	Total Provided to Subrecipients
U. S. Department of Education				
Passed Through Ohio Department of Education:				
Title I	84.010	2018	$ 327,660	$ -
Special Education Cluster:				
IDEA Part B	84.027	2018	83,746	-
Total Special Education Cluster			83,746	-
Title IV-A Student Support and Academic Enrichment Grant	84.424A	2018	9,900	
Title II-A Improving Teacher Quality	84.367	2018	37,239	-
Total U.S. Department of Education			458,545	-
U. S. Department of Agriculture				
Passed Through the Ohio Department of Education:				
Child Nutrition Cluster:				
Cash Assistance:				
School Breakfast Program	10.553	2018	124,978	-
National School Lunch Program	10.555	2018	230,628	-
Total Child Nutrition Cluster			355,606	-
Total U.S. Department of Agriculture			355,606	-
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ 814,151	$ -

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, 2018

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, 2018. 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 2018, the ODE authorized the following transfers:

CFDA Number / Grant Title	Grant Year	Transfer Out	Transfer In
84.010 Title I	2017	$ 12,685	
84.010 Title I	2018		$ 12,685
84.367 Title II-A Improving Teacher Quality	2017	1,943	
84.367 Title II-A Improving Teacher Quality	2018		1,943
		$ 14,628	$ 14,628

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, 2018

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)?	None Reported
(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?	None Reported
(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): Child Nutrition Cluster	CFDA # 10.553/10.555
(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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OHIO AUDITOR OF STATE
KEITH FABER

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 12, 2019