NEW DAY ACADEMY BOARDING AND DAY SCHOOL
LAKE COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

NEW DAY ACADEMY BOARDING AND DAY SCHOOL
LAKE COUNTY
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

New Day Academy Boarding and Day School
Lake County
32114 Vine Street
Willowick, Ohio 44095

To the Board of Directors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Day Academy Boarding and Day School, Lake County, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2018, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

August 29, 2018

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

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- Total assets and deferred outflows increased $136,812, which represents a 36% increase from the prior year.
- Total liabilities and deferred inflows increased $89,549, which represents a 3% increase from the prior year.
- Total revenues decreased $153,421, which represents 9% decrease from the prior year.
- Total expenses decreased $202,248, which represents 12% decrease from the prior year.
- Total net position increased $47,263, which represents a 2% increase from the prior year.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity.

Statement of Net Position

The statement of net position answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and deferred outflows and all liabilities and deferred inflows, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid. This statement reports the School's net position, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the School's net position for fiscal year 2017 compared with fiscal year 2016.

(Table 1)
Net Position

	2017	2016	Change
Assets			
Current Assets	$ 16,870	$ 12,262	$ 4,608
Capital Assets, Net	32,686	59,296	(26,610)
Total Assets	49,556	71,558	(22,002)
Deferred Outflows of Resources			
Pension	464,951	306,137	158,814
Total Deferred Outflows of Resources	464,951	306,137	158,814

Liabilities			
Current Liabilities	288,385	179,676	108,709
Long-Term Liabilities	2,198,834	2,365,230	(166,396)
Total Liabilities	2,487,219	2,544,906	(57,687)
Deferred Inflows of Resources			
Pension	766,867	619,631	147,236
Total Deferred Inflows of Resources	766,867	619,631	147,236
Net Position			
Investment in Capital Assets	-	6,040	(6,040)
Restricted	-	103,524	(103,524)
Unrestricted	(2,739,579)	(2,896,406)	156,827
Total Net Position	$(2,739,579)	$ (2,786,842)	47,263

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

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

GASB 68 requires that the net pension liability equals the School's proportionate share of each plan's collective:

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

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

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

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

Table 2 shows the changes in net position for the fiscal year ended June 30, 2017 compared to fiscal year 2016.

(Table 2)

Change in Net Position

	2017	2016	Change
Operating Revenues			
State Foundation	$1,229,980	$1,293,167	$(63,187)
Casino	8,004	8,431	(427)
Miscellaneous	28,619	66,066	(37,447)
Non-Operating Revenues			
Federal and State Grants	300,578	352,938	(52,360)
Total Revenues	1,567,181	1,720,602	(153,421)
Operating Expenses			
Salaries & Wages	719,775	755,365	(35,590)
Fringe Benefits	54,478	186,771	(132,293)
Purchased Services	594,627	638,398	(43,771)
Material and Supplies	59,769	71,266	(11,497)
Depreciation	26,610	28,440	(1,830)
Miscellaneous	59,479	34,874	24,605
Non-Operating Expenses			
Interest & Fiscal Charges	5,180	7,052	(1,872)
Total Expenses	1,519,918	1,722,166	(202,248)

Changes in Net Position	47,263	(1,564)	48,827
Net Position, Beginning of Year	(2,786,842)	(2,785,278)	(1,564)
Net Position, End of Year	(2,739,579)	(2,786,842)	$ 47,263

Total revenues decreased significantly $153,421 during fiscal year 2017. The decrease was the result of declining federal/state and foundation revenues. Total expenses reported for fiscal year 2017 decreased by $202,248 compared to those reported for the previous fiscal year. The decrease in expenses were due in part to a significant decrease in fringe benefits.

Capital Assets

The School has $32,686 invested in capital assets net of accumulated depreciation. See Table 3 for details:

Table 3
Capital Assets

	2017	2016
Vehicles, Furniture, Fixtures and Equipment	$ 32,686	$ 59,296

See Note 5 of the notes to the basic financial statements for more detailed information on the School's capital asset.

Debt

At June 30, 2017, the School has $35,845 in capitalized leases. Table 4 summarizes the capital lease outstanding at year end.

Table 4
Outstanding Debt at Year End

	2017	2016
Capital Lease	$ 35,815	$ 53,256

See Notes 12 of the notes to the basic financial statements for more detailed information on the School's capitalized leases.

Contacting the School

This financial report is designed to provide our citizens with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Treasurer, at the New Day Academy Boarding & Day School, 32114 Vine Street, Willowick, Ohio 44095.

NEW DAY ACADEMY BOARDING AND DAY SCHOOL
LAKE COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2017

Assets	
Current Assets	
Cash	$ 11,776
Intergovernmental Receivable	5,094
Total Current Assets	16,870
Noncurrent Assets	
Capital Assets, Net	32,686
Total Assets	49,556
Deferred Outflows of Resources	
Pension	464,951
Total Deferred Outflows of Resources	464,951
Liabilities	
Current Liabilities	
Accounts Payable	214,580
Accrued Wages and Benefits	47,696
Intergovernmental Payable	7,930
Capital Leases Payable	18,179
Total Current Liabilities	288,385
Long-Term Liabilities	
Due in More Than One Year:	
Capital Leases Payable	17,636
Net Pension Liability (See Note 7)	2,181,198
Total Liabilities	2,487,219
Deferred Inflows of Resources	
Pension	766,867
Total Deferred inflows of Resources	766,867
Net Position	
Unrestricted	(2,739,579)
Total Net Position	$ (2,739,579)

See the accompanying notes to the financial statements.

NEW DAY ACADEMY BOARDING AND DAY SCHOOL
LAKE COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating Revenues	
State Foundation	$ 1,229,980
Casino	8,004
Miscellaneous	28,619
Total Operating Revenues	1,266,603
Operating Expenses	
Salaries	719,775
Fringe Benefits	54,478
Purchased Services	594,627
Materials & Supplies	59,769
Miscellaneous	59,479
Depreciation	26,610
Total Operating Expenses	1,514,738
Operating Loss	(248,135)
Non-Operating Revenues / (Expenses)	
Federal Grants	298,911
State Grants	1,667
Interest & Fiscal Charges	(5,180)
Total Non-Operating Revenues / (Expenses)	295,398
Change in Net Position	47,263
Net Position (Deficit) at Beginning of Year	(2,786,842)
Net Position (Deficit) at End of Year	$ (2,739,579)

See the accompanying notes to the financial statements.

NEW DAY ACADEMY BOARDING AND DAY SCHOOL
LAKE COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Increase (Decrease) In Cash	
Cash Flows from Operating Activities	
Cash Received from the State of Ohio	$ 1,237,984
Cash Received from Other Operating Sources	28,619
Cash Payments to Employees for Services and Benefits	(879,604)
Cash Payments to Suppliers for Goods and Services	(661,843)
Net Cash Used for Operating Activities	(274,844)
Cash Flows from Noncapital Financing Activities	
Cash Received from Federal and State Grants	300,578
Net Cash Provided by Noncapital Financing Activities	300,578
Cash Flows from Capital and Related Financing Activities	
Principal Payment	(17,441)
Interest Payment	(5,180)
Net Cash Used for Capital and Related Financing Activities	(22,621)
Net Increase in Cash	3,113
Cash at Beginning of Year	8,663
Cash at End of Year	$ 11,776
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(248,135)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	26,610
Changes in Assets, Deferred Outflows, Liabilities and Deferred Inflows:	
Increase in Intergovernmental Receivable	(1,495)
Increase in Deferred Outflows	(158,814)
Increase in Accounts Payable	118,493
Decrease in Accrued Wages & Benefits	(2,248)
Increase in Intergovernmental Payable	(8,274)
Decrease in Net Pension Liability	(148,217)
Increase in Deferred Inflows	147,236
Total Adjustments	(26,709)
Net Cash Used for Operating Activities	$ (274,844)

See the accompanying notes to the financial statements.

1. DESCRIPTION OF THE ENTITY

New Day Academy Boarding & Day School, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching services. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School is approved for operation under contract with the Educational Resources Consultants of Ohio, Inc. for a period commencing July 1, 2016 and ending June 30, 2018. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under a five member self-appointed Board of Trustees. The School's Code of Regulations specifies that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the existing Board. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The School works with a management company called World Class Community Schools (WCCS). The School separated into two locations due to space availability. The other address for the School is 291 East 222nd Street, Euclid, Ohio 44123. During the current fiscal year, students between grades 6 through 12 were located there. The School provides transportation, which shuttles some students from one campus to the other.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

<u>A. Basis of Presentation</u>
The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

<u>B. Measurement Focus/Basis of Accounting</u>
The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows are included on the statement of net position. Net Position is segregated into net investment in capital assets, restricted components, and unrestricted components.

Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code, Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe formal budgetary provisions; however, it does prescribe that the School's Administrator compares income and expense to actual figures on a regular basis and also prescribes that the board will review and compare expenses and income from reports prepared by the School's treasurer on a monthly basis. Under Ohio Revised Code Section 5705.391, the School must prepare a five-year funding plan and submit it to the Ohio Superintendent of Public Instruction.

D. Cash

All monies received by the School are maintained in a demand deposit account. Total cash for all funds is presented as "cash" on the accompanying statement of net position.

E. Estimates

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

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of one thousand dollars. The School did not capitalize any interest during the fiscal year. 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. Depreciation of furniture, fixtures, equipment, vehicles, and capital leases are computed using the straight-line method over the estimated useful life of three to seven years.

Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. The School does not have any infrastructure.

G. Intergovernmental Revenues

The School currently participates in the State Foundation and Casino Programs. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Amounts received under the above programs for the 2017 fiscal year totaled $1,237,984.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts received under the above program for the 2017 fiscal year totaled $300,578.

H. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2017 are reported as accrued liabilities in the accompanying financial statements. Accrued liabilities totaled $288,385 at June 30, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Deferred Outflow / Deferred Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. Deferred outflows of resources represent 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 School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 7.

In addition to liabilities, the statement of net position may 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 as an inflow of resources (revenue) until that time. For the School, deferred inflows of resources are reported on the statement of net position for pension.

J. Pensions

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

K. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by any outstanding capital related debt. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

3. DEPOSITS

At June 30, 2017, the carrying amount of the School’s deposits, as well as its bank balance, was $11,776. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, the School’s bank balance was covered by the Federal Deposit Insurance Corporation.

4. RECEIVABLES

Receivables at June 30, 2017 primarily consisted of intergovernmental (e.g. foundation and federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

SERS Refund	$5,094

5. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2017 follows:

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Furniture, Fixtures, and Equipment	$ 92,101	$ -	$ -	$ 92,101
Vehicles	135,054	-	-	135,054
Total Capital Assets	227,155	-	-	227,155
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(87,812)	(2,144)	-	(89,956)
Vehicles	(80,047)	(24,466)	-	(104,513)
Total Accumulated Depreciation	(167,859)	(26,610)	-	(194,469)
Total Capital Assets, Net	$ 59,296	$ (26,610)	-	$ 32,686

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. For fiscal year 2017, the School contracted with Peerless and Netherlands Insurance Companies for property and general liability insurance. There is a $500 deductible for the general liability and a $1,000 deductible for property insurance.

There were no significant reductions in insurance coverage from the prior year. Also, there were no settlements that exceeded insurance coverage for the past three fiscal years.

B. Workers' Compensation

The School paid the State Workers' Compensation System a premium for employee injury coverage during fiscal year 2017. The premium is calculated by multiplying the gross total payroll by a factor that is calculated by the State.

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension. GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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 intergovernmental payable on the accrual basis of accounting.

School Employees Retirement System (SERS)

Plan Description

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

Age and service requirements for retirement are as follows:

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

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

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

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy

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

The School's contractually required contribution to SERS was $32,977 for fiscal year 2017.

State Teachers Retirement System (STRS)

Plan Description

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

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

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

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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The School's contractually required contribution to STRS was $67,476 for fiscal year 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
The net pension liability was measured as of July 1 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 1,628,198	$ 553,000	$ 2,181,198
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00486421%	0.00755560%	
Prior Measurement Date	0.00657641%	0.00897090%	
Change in Proportionate Share	-0.00171220%	-0.00141530%	
Pension Expense	$ (143,434)	$ 84,092	$ (59,342)

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 School's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight-line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected

7. DEFINED BENEFIT PENSION PLANS (Continued)

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, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 65,787	$ 7,457	$ 73,244
Net Difference between Projected and Actual Earnings on Pension Plan Investments	135,184	45,616	180,800
Changes of Assumptions	0	36,916	36,916
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	0	73,538	73,538
School Contributions Subsequent to the Measurement Date	67,476	32,977	100,453
Total Deferred Outflows of Resources	$ 268,447	$ 196,504	$ 464,951
Deferred Inflows of Resources			
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	$ 706,812	$ 60,055	$ 766,867

$100,453 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	$ (171,407)	$ 34,964	$ (136,443)
2019	(171,407)	34,932	(136,475)
2020	(119,533)	20,463	(99,070)
2021	(43,494)	13,113	(30,381)
	$ (505,841)	$ 103,472	$ (402,369)

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

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

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

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

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

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

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

Discount Rate

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's Proportionate Share of the Net Pension Liability	$ 732,138	$ 553,000	$ 403,055

Actuarial Assumptions - STRS

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

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

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

Discount Rate

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's Proportionate Share of the Net Pension Liability	$ 2,163,742	$ 1,628,198	$ 1,176,434

8. POST-EMPLOYMENT BENEFITS

Changes Between Measurement Date and Report Date

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

School Employees Retirement System

Health Care Plan Description

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

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

Funding Policy

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School's surcharge obligation was $2,759.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The School's contributions for health care for the fiscal year ended June 30, 2015, was $2,901. The full amount has been contributed for fiscal year 2015.

8. POST-EMPLOYMENT BENEFITS (Continued)

State Teachers Retirement System

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

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

9. PURCHASED SERVICES

For the fiscal year ended June 30, 2017, purchased service expenses were payments for services rendered by various vendors as follows:

410	Professional and Technical Services	$ 274,723
420	Property Services	101,584
430	Travel and Meetings	4,586
440	Utilities	39,489
450	Communications	16,338
460	Contractual Trade Services	115,835
470	Tuition and Other Similar Payments	2,880
480	Transportation	39,192
	Total	$ 594,627

10. SPONSORSHIP AGREEMENT

The School was approved for operation under contract with the Educational Resources Consultants of Ohio, Inc. for a period commencing July 1, 2013 and ending June 30, 2015. For fiscal year 2016, the Sponsor renewed its contract with the School effective through June 30, 2018. Sponsorship fees paid in the amount of $32,924 are reflected as "Purchased Services" in the Statement of Revenues, Expenses, and Change in Net Position.

11. MANAGEMENT COMPANY EXPENSES / RELATED PARTY

The School contractually engages with World Class Community Schools (WCCS) to the extent permitted by law, to provide the operation management and internal administrative oversight by providing the specific functions relating to the provision of educational services and the management and operation of the School. The agreement is good for five academic years, expiring on June 30, 2018. The agreement shall be automatically renewed after the primary term for an additional term of one year and for successive one-year terms thereafter. Also, the School joined the WCCS consortium for healthcare benefits in 2014.

The School paid a management fee of $85,621 and Medical, Dental and Vision benefits of $97,296 to WCCS in 2017.

The School's Headmaster; Terrance Walton is married to the WCC's President of Operations; Kinja Walton.

12. CAPITAL LEASE / LONG-TERM OBLIGATIONS

During 2013, the School entered into a vehicle lease for $19,984. The School capitalized the vehicle related to the lease. The lease expires in 2018. During 2015, the School entered into a vehicle lease for $66,160. The School capitalized the vehicle related to the lease. The lease expires in 2020.

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

	Amount Outstanding 6/30/2016	Additions	Deductions	Amount Outstanding 6/30/2017	Due In One Year
2013 Capital Lease	$ 8,047	$ 0	$ 4,511	$ 3,536	$3,536
2015 Capital Lease	45,209	0	12,930	32,279	14,643
Net Pension Liability:					
STRS	1,817,527	0	(189,329)	1,628,198	0
SERS	511,888	41,112	0	553,000	0
Total Net Pension Liability	2,329,415	41,112	(189,329)	2,181,198	0
Total Long-Term Obligations	$ 2,382,671	$ 41,112	$ (171,888)	$ 2,217,013	$ 18,179

The following summarizes the minimum principal payments due under this lease subsequent to June 30, 2017:

2018	21,773
2019	17,528
2020	1,461
Total Minimum Lease Payments	40,762
Less: Interest	(4,947)
Present Value of Minimum Interest Payments	$ 35,815

13. OPERATING LEASE

The School is a lessee for a twelve-month building operating lease for the period of July 1, 2016 through June 30, 2017 with the City of Euclid (the lessor). Rent is payable in monthly installments of $1,408 and is due by the fifteenth day of each month. The School is also a lessee for a twelve-month building operating lease for the period of July 1, 2016 through June 30, 2017 with the Roman Catholic Diocese of Cleveland (the lessor). Rent was payable in monthly installments of $4,338 for the first six months and $5.068 for the remaining six months and was due by the first day of each and every calendar month.

14. CONTINGENCIES

A. Grants

The School received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2017, if applicable, cannot be determined at this time.

B. State Funding

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The 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 performed such a review on the School for fiscal year 2017.

In addition, the School's contracts with their Sponsor and Management Company and they requires payment based on revenues received from the State. Management believes this may result in either an additional receivable to, or liability of, the School. As a result of the review, the Ohio Department of Education overpaid the School $7,930, which is recorded as Intergovernmental Payable.

C. Litigation

The School is a potential defendant in several lawsuits as of June 30, 2017. The School cannot presently determine the outcome of these possible suits nor the impact on the School's financial condition.

15. MANAGEMENT PLAN TO ELIMINATE NEGATIVE NET POSITION

At June 30, 2017, the School had a negative ending net position of $(2,739,579). The primary focus of the Administration's plan to improve fiscal performance includes: (1) sustain/grow current student enrollment, (2) continue return-on-investment budgeting, (3) trim expenditures not directly tied to student learning growth and (4) continued focus on process improvements in school operations and instruction. The Board and Administration will continue directing a significant amount of time and energy toward making stronger connections with current School families to expand the word about the School's high academic performance in an effort to grow future student enrollment. In addition, the financial plan will continue to focus on cutting costs within daily operations through process improvements and spending restrictions after the School's instruction program requirements are met.

16. SUBSEQUENT EVENTS

In August 2017, the School dissolved its management agreement with World Class Community Schools.

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NEW DAY ACADEMY BOARDING & DAY SCHOOL
LAKE COUNTY, OHIO

Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability Last Four Fiscal Years (1)

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
School's Proportion of the Net Pension Liability	0.00486421%	0.00657641%	0.00843190%	0.00843190%
School's Proportionate Share of the Net Pension Liability	$ 1,628,198	$ 1,817,527	$ 2,050,930	$ 2,436,475
School's Covered Payroll	$ 511,807	$ 746,271	$ 934,938	$ 1,057,046
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	318.13%	243.55%	219.37%	230.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)				
School's Proportion of the Net Pension Liability	0.00755560%	0.00897090%	0.00652900%	0.00652900%
School's Proportionate Share of the Net Pension Liability	$ 553,000	$ 511,888	$ 330,429	$ 388,377
School's Covered Payroll	$ 234,650	$ 375,751	$ 193,939	$ 185,029
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	235.67%	136.23%	170.38%	209.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

NEW DAY ACADEMY BOARDING & DAY SCHOOL
LAKE COUNTY, OHIO
Required Supplementary Information
Schedule of School Contributions
Last Ten Fiscal Years

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 67,476	$ 71,653	$ 104,478	$ 121,542
Contributions in Relation to the Contractually Required Contribution	(67,476)	(71,653)	(104,478)	(121,542)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 481,971	$ 511,807	$ 746,271	$ 934,938
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%
School Employees Retirement System (SERS)				
Contractually Required Contribution	$ 32,977	$ 32,851	$ 49,524	$ 26,880
Contributions in Relation to the Contractually Required Contribution	(32,977)	(32,851)	(49,524)	(26,880)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 235,550	$ 234,650	$ 375,751	$ 193,939
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

2013	2012	2011	2010	2009	2008
$ 137,416	$ 120,516	$ 114,102	$ 81,500	$ 82,860	$ 91,544
(137,416)	(120,516)	(114,102)	(81,500)	(82,860)	(91,544)
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 1,057,046	$ 927,046	$ 877,708	$ 626,923	$ 637,385	$ 704,185
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
$ 25,608	$ 24,384	$ 21,072	$ 27,644	$ 16,944	$ 16,002
(25,608)	(24,384)	(21,072)	(27,644)	(16,944)	(16,002)
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 185,029	$ 181,294	$ 167,637	$ 204,165	$ 172,195	$ 162,953
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

School Employees Retirement System (SERS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2016 and 2017.

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

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

State Teachers Retirement System (STRS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2016 and 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2016 and 2017. See the notes to the basic financial for the methods and assumptions in this calculation.

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

New Day Academy Boarding and Day School
Lake County
32114 Vine Street
Willowick, Ohio 44095

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the accompanying financial statements of the New Day Academy Boarding and Day School, Lake County, (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated August 29, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

August 29, 2018

Dave Yost • Auditor of State

NEW DAY ACADEMY BOARDING AND DAY SCHOOL

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 20, 2018