



OHIO AUDITOR OF STATE
KEITH FABER



**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Southwest Ohio Preparatory School
Hamilton County
5555 Little Flower Avenue
Cincinnati, Ohio 45239

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the Southwest Ohio Preparatory School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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 School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Ohio Preparatory School, Hamilton County, Ohio, as of June 30, 2018, and the respective changes in its financial position and its cash flows thereof 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 and other post-employment benefit liabilities and pension and other post-employment benefit 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 June 24, 2019, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

June 24, 2019

Southwest Ohio Preparatory School
Hamilton County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The management's discussion and analysis of the Southwest Ohio Preparatory School (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for the School are as follows:

- The liabilities of the School exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$152,389 (negative net position).
- At fiscal year-end, the School's total assets and deferred outflows of resources were \$229,595 and total liabilities were \$381,984.
- The School had an operating loss of \$447,850 during the fiscal year.

Using this Annual 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, therefore the entity wide and the fund presentations information is the same.

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 liabilities, 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's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Southwest Ohio Preparatory School
Hamilton County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Financial Analysis

Table 1 provides a summary of the School's net position at June 30, 2018.

Table 1
Net Position

| | 2018 |
|--|--------------|
| Assets: | |
| Current Assets | \$ 18,725 |
| Capital Assets, Net | 110,831 |
| Total Assets | 129,556 |
| Deferred Outflows of Resources | 100,039 |
| Liabilities | |
| Current Liabilities | 366,984 |
| Long-Term Liabilities-Line of Credit Payable | 15,000 |
| Total Liabilities | 381,984 |
| Net Position: | |
| Net Investment in Capital Assets | 110,831 |
| Unrestricted | (263,220) |
| Total Net Position | \$ (152,389) |

Fiscal year 2018 was the first year of operations. In future years, a comparative analysis will be presented.

Southwest Ohio Preparatory School
Hamilton County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 2 provides a summary of the School's change in net position for fiscal year ended June 30, 2018.

Table 2
Changes in Net Position

| | 2018 |
|----------------------------------|--------------|
| Operating Revenues: | |
| Foundation Revenues | \$ 1,365,751 |
| Other Unrestricted Grants-In-Aid | 46,131 |
| Economic Disadvantaged Funding | 133,657 |
| Miscellaneous Revenue | 1,251 |
| Total Operating Revenue | 1,546,790 |
| Operating Expenses: | |
| Salaries | 708,397 |
| Fringe Benefits | 96,935 |
| Purchased Services | 1,027,404 |
| Materials and Supplies | 124,560 |
| Depreciation | 20,595 |
| Other Operating Expenses | 16,749 |
| Total Operating Expenses | 1,994,640 |
| Non-Operating Revenues: | |
| Federal Grants | 294,564 |
| Other Non-Operating Revenue | 897 |
| Total Non-Operating Revenues | 295,461 |
| Change in Net Position | (152,389) |
| Net Position, Beginning of Year | - |
| Net Position, End of the Year | \$ (152,389) |

Fiscal year 2018 was the first year of operations. In future years, a comparative analysis will be presented.

Capital Assets

At fiscal year-end, the School had \$110,831 invested in capital assets. This balance represents the amount in which current year capital acquisitions of \$131,426 exceeded current year depreciation of \$20,595. See Note 5 of the basic financial statements for additional details.

Southwest Ohio Preparatory School
Hamilton County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Debt

At fiscal year-end, the School's loans payable balance was \$185,000. This balance represents new loans totaling \$499,050 less principal payments of \$314,050. For more information on debt, see Note 6 to the basic financial statements.

Contacting the School's Financial Management

This financial report is designed to provide a general overview of the finances of the Southwest Ohio Preparatory School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Southwest Ohio Preparatory School, 5555 Little Flower Avenue, Cincinnati, Ohio 45239.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

| | |
|--|--------------|
| Assets: | |
| Current Assets | |
| Cash and Cash Equivalents | \$ 6,573 |
| Intergovernmental Receivable | 11,336 |
| Prepaid Items | 816 |
| Total Current Assets | 18,725 |
| Noncurrent Assets | |
| Depreciable Capital Assets, Net | 110,831 |
| Total Noncurrent Assets | 110,831 |
| Total Assets | 129,556 |
| Deferred Outflows of Resources: | |
| Pension | 98,511 |
| OPEB | 1,528 |
| Total Deferred Outflows of Resources | 100,039 |
| Liabilities: | |
| Current Liabilities | |
| Accounts Payable | 120,096 |
| Accrued Wages Payable | 56,308 |
| Intergovernmental Payable | 20,580 |
| Line of Credit Payable | 170,000 |
| Total Current Liabilities | 366,984 |
| Noncurrent Liabilities: | |
| Line of Credit Payable | 15,000 |
| Total Liabilities | 381,984 |
| Net Position: | |
| Net Investment in Capital Assets | 110,831 |
| Unrestricted | (263,220) |
| Total Net Position | \$ (152,389) |

See accompanying notes to the basic financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | |
|---------------------------------|---------------------|
| Operating Revenues: | |
| Foundation Payments | \$ 1,365,751 |
| Other Unrestricted Grants | 46,131 |
| Economic Disadvantaged | 133,657 |
| Miscellaneous Revenue | 1,251 |
| Total Operating Revenues | <u>1,546,790</u> |
| Operating Expenses: | |
| Salaries | 708,397 |
| Fringe Benefits | 96,935 |
| Purchased Services | 1,027,404 |
| Materials and Supplies | 124,560 |
| Depreciation | 20,595 |
| Other | 16,749 |
| Total Operating Expenses | <u>1,994,640</u> |
| Operating Loss | <u>(447,850)</u> |
| Non-Operating Revenues: | |
| Federal subsidies | 294,564 |
| Other Non-Operating Revenue | 897 |
| Total Non-Operating Revenues | <u>295,461</u> |
| Change in Net Position | (152,389) |
| Net Position, Beginning of Year | - |
| Net Position, End of Year | <u>\$ (152,389)</u> |

See accompanying notes to the basic financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | |
|---|-------------------------|
| Cash Flows from Operating Activities: | |
| Cash Received from Foundation Payments | \$ 1,361,386 |
| Cash Received from Other Unrestricted Grants | 46,131 |
| Cash Received from Economic Disadvantaged Funding | 133,657 |
| Cash Received from Miscellaneous Revenues | 1,251 |
| Cash Payments for Personal Services | (830,513) |
| Cash Payments for Purchased Services | (909,040) |
| Cash Payments for Supplies and Materials | (124,560) |
| Cash Payments for Miscellaneous | (17,065) |
| Net Cash Used for Operating Activities | <u><u>(338,753)</u></u> |
| | |
| Cash Flows from Noncapital Financing Activities: | |
| Cash Received from Federal and State Subsidies | 290,855 |
| Cash Received from Line of Credit | 499,050 |
| Payments for Interest on Line of Credit | (314,050) |
| Cash Received from Donation: | 897 |
| Net Cash Provided by Noncapital Financing Activities | <u><u>476,752</u></u> |
| | |
| Cash Flows from Capital and Related Financing Activities: | |
| Payments for Capital Acquisitions | (131,426) |
| Net Cash Used for Capital and Related Financing Activities | <u><u>(131,426)</u></u> |
| | |
| Net Increase in Cash and Cash Equivalents | 6,573 |
| | |
| Cash and Cash Equivalents at Beginning of Year | - |
| Cash and Cash Equivalents at End of Year | <u><u>\$ 6,573</u></u> |

See accompanying notes to the basic financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Reconciliation of Operating Loss to Net Cash
Used for Operating Activities:

| | |
|--|-----------------------------------|
| Operating Loss | \$ (447,850) |
| Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities | |
| Depreciation | 20,595 |
| Changes in Assets and Liabilities | |
| Prepaid Items | (816) |
| Intergovernmental Receivable | (7,627) |
| Accounts Payable | 120,096 |
| Intergovernmental Payable | 20,580 |
| Accrued Wages | 56,308 |
| Net Pension Liability and Related Deferrals | (98,511) |
| Net OPEB Liability and Related Deferrals | (1,528) |
| Net Cash Used for Operating Activities | <u><u>\$ (338,753)</u></u> |

See accompanying notes to the basic financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Southwest Ohio Preparatory Academy (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to provide for educational, literary, scientific and related teaching services of all kinds. 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 qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

St Aloysius Orphanage is the School's sponsor. 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 entered into a service agreement with Mangel, LLC to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School. See Note 13 for more information.

The School operates under the direction of at least five, but not more than nine, directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 2 non-certified and 11 certificated full-time teaching personnel who provide services to 212 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (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.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. 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.

E. Capital Assets

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 value as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess 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.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|------------------------------------|-----------|
| Land Improvements | 10 years |
| Building and Improvements | 25 years |
| Furniture, Fixtures, and Equipment | 3-5 years |
| Vehicles | 7 years |

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash into separate funds.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond fiscal year-end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year which services are consumed.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement 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(s) and will not be recognized as an outflow of resources (expense) until then. For the School, deferred outflows of resources are reported on the statement of net position for pensions and other postemployment benefits (OPEB). These deferred outflows of resources related to pensions and OPEB are explained in Note 9 and Note 10.

In addition to liabilities, the statement of financial position will sometimes 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(s) and will not be recognized as an inflow of resources (revenue) until that time. These deferred inflows of resources related to pensions and OPEB are explained in Note 9 and Note 10.

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of fiscal year-end, including:

Accounts Payable – payments due for services or goods that were rendered or received during fiscal year 2018.

Accrued Wages Payable – salary payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2018 contract.

Intergovernmental Payable – payments made after year-end for the Schools' share of retirement contributions, Medicare and Workers' Compensation associated with services rendered during the fiscal year.

J. Compensated Absences

Vacation and sick leave benefits are not carried forward to future fiscal years. The School does not pay sick leave benefits upon termination or retirement.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. The School applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net position is available.

L. Operating Revenues and Expenses

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

M. 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.

N. 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.

NOTE 3 – DEPOSITS

At June 30, 2018, the carrying amount of the School's deposits was \$6,573 and the bank balance was \$21,486. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, the School's bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental receivables arising from pension system overpayments, and foundation underpayment. All receivables are considered collectible in full.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 5 – CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|------------------------------------|------------------------------|-------------------|------------------|---------------------------|
| Depreciable Capital Assets | | | | |
| Furniture, Fixtures, and Equipment | \$ - | \$ 131,426 | \$ - | \$ 131,426 |
| Total Depreciable Capital Assets | <u>-</u> | <u>131,426</u> | <u>-</u> | <u>131,426</u> |
| Less Accumulated Depreciation: | | | | |
| Furniture, Fixtures, and Equipment | - | (20,595) | - | (20,595) |
| Total Accumulated Depreciation | <u>-</u> | <u>(20,595)</u> | <u>-</u> | <u>(20,595)</u> |
| Depreciable Capital Assets, Net | <u>\$ -</u> | <u>\$ 110,831</u> | <u>\$ -</u> | <u>\$ 110,831</u> |

NOTE 6 – LONG TERM OBLIGATIONS

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--------------|------------------------------|------------------|------------------|---------------------------|--------------------------------|
| Loan Payable | \$ - | \$ 499,050 | \$ (314,050) | \$ 185,000 | \$ 170,000 |

In August 2017, the School entered into a line of credit with the Mangen Family Foundation. The loan carries an interest rate of 0 percent and matures December 31, 2019. If the School goes in default and is unable to repay the loan in full, as described, the Mangen Family Foundation will have the right to recover the remaining balance of the loan, plus any expenses incurred in enforcing the loan, through the sale or transfer of any and all property owned by the School or via a lien on any and all property owned by the School.

Debt-service-to-maturity requirements to retire the notes are as follows:

| <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------|-------------------|-----------------|-------------------|
| 2019 | \$ 170,000 | \$ - | \$ 170,000 |
| 2020 | 15,000 | - | 15,000 |
| Total | <u>\$ 185,000</u> | <u>\$ -</u> | <u>\$ 185,000</u> |

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 7 – OPERATING LEASE

On July 1, 2017, School entered into a lease for classroom space at 5555 Little Flower Avenue, Cincinnati, Ohio 45239. The lease is for a term of ten years commencing on July 1, 2017 and ending on June 30, 2027. The lease agreement contained required payments of \$14,920 per month from August 1, 2017 to January 31, 2018, and \$12,315 from February 1, 2018 to June 30, 2018. Operating lease payments to St. Therese during the fiscal year totaled \$161,378.

The following is a schedule of the future payments required under the operating lease as of June 30, 2018:

| Year Ended | Payments |
|--------------------------------|--------------|
| June 30, 2019 | \$ 147,785 |
| June 30, 2020 | 147,785 |
| June 30, 2021 | 147,785 |
| June 30, 2022 | 147,785 |
| June 30, 2023 | 147,785 |
| June 30, 2024 to June 30, 2027 | 443,355 |
| Total | \$ 1,182,280 |

NOTE 8 – RISK MANAGEMENT

A. Property and Liability Insurance

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the School contracted with Cincinnati Insurance Company and Illinois National Insurance Company for commercial property liability, employee dishonesty liability, school leader’s legal liability, cyber liability, general umbrella liability, and general liability.

Coverages are as follows:

| | |
|---------------------------------|------------|
| Commercial Property | \$ 500,000 |
| Employee Dishonesty | 500,000 |
| School Leader’s Legal Liability | 1,000,000 |
| Commercial Umbrella: | |
| Per occurrence | 5,000,000 |
| Total per year | 5,000,000 |
| General Liability: | |
| Per occurrence | 1,000,000 |
| Total per year | 2,000,000 |

Settlement amounts did not exceed coverage amounts in the past year.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 8 – RISK MANAGEMENT (Continued)

B. Worker’s Compensation

The School pays the State Worker’s Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the annual total gross payroll by a factor that is calculated by the State.

NOTE 9 – 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.

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*.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description - 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 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 67 with 10 years of service credit; or Age 57 with 30 years of service credit |
| Actuarially Reduced Benefit: | 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 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.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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, 2018, the allocation to pension, death benefits, and Medicare B was 13.50 percent and .50 percent was allocated to the Health Care Fund.

The School’s contractually required pension contribution to SERS was \$8,476 for fiscal year 2018 of which the entire amount has been paid.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description - 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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five year of qualifying service credit, or 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 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 as one defined benefit plan for GASB 68 reporting purposes.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 9 – 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 School 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 School’s contractually required contribution to STRS was \$90,035 for fiscal year 2018 and \$18,035 was recorded as an intergovernmental payable

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 School's proportion of the net pension liability was based on the School'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 |
|--|------------|------------|-------|
| Proportionate Share of Net Pension Liability- Current Measurement Period | \$0 | \$0 | \$0 |
| Proportion of the Net Pension Liability- Current Measurement Period | 0.0000000% | 0.0000000% | |
| Pension Expense | \$0 | \$0 | \$0 |

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

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

| | SERS | STRS | Total |
|---|---------|----------|----------|
| Deferred Outflows of Resources | | | |
| School contributions subsequent to the measurement date | \$8,476 | \$90,035 | \$98,511 |
| Total Deferred Outflows of Resources | \$8,476 | \$90,035 | \$98,511 |

\$98,511 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, 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 | \$0 | \$0 | \$0 |
| 2020 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 |
| 2022 | 0 | 0 | 0 |
| Total | \$0 | \$0 | \$0 |

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.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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, 2017, are presented below:

| | |
|--|---|
| Wage Inflation | 3.0 percent |
| Future Salary Increases, including inflation | 3.5 percent to 18.2 percent |
| COLA or Ad Hoc COLA | 2.5 percent |
| Investment Rate of Return | 7.5 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

Mortality rates were based on 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% of male rates, and 110% of female rates. Mortality among disable members were based upon the 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.

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

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 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 asset class are summarized in the following table:

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|------------------------------|---|
| 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 | <u>100.00 %</u> | |

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 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 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.

| | <u>1% Decrease (6.50%)</u> | <u>Current Discount Rate (7.50%)</u> | <u>1% Increase (8.50%)</u> |
|--|--------------------------------|--|--------------------------------|
| School's proportionate share of the net pension liability | \$0 | \$0 | \$0 |

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:

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

| | |
|--------------------------------------|---|
| 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 | 3.00 percent |
| Cost-of-Living Adjustments (COLA) | 0 percent effective July 1, 2017 |

Mortality rates were 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. Post-retirement disabled 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. 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 June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return*</u> |
|----------------------|------------------------------|--|
| Domestic Equity | 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 | <u>100.00 %</u> | |

*The 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.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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.

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 7.45 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 (6.45 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%) |
|--|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net pension liability | \$0 | \$0 | \$0 |

Changes Between Measurement Date and Report 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% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, 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% 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 Cost of Living Adjustment was reduced to zero.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by School Employees Retirement System or State Teachers Retirement System have an option to choose Social Security. As of June 30, 2018, no members of the Board of Education have elected Social Security. The School's liability is 6.2 percent of wages paid.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS

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 School’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.

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 OPEB are financed; however, the School 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 *intergovernmental payable*.

Plan Description - School Employees Retirement System (SERS)

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 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.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

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.

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 School's surcharge obligation was \$1,214. 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 School's contractually required contribution to SERS was \$1,528 for fiscal year 2018. Of this amount, \$1,219 is reported as an intergovernmental payable.

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.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

Net OPEB Liability, 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 School's proportion of the net OPEB liability was based on the School'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 Current Measurement Date | 0.0000000% | 0.0000000% | |
| Proportionate Share of the Net OPEB Liability | \$0 | \$0 | \$0 |
| OPEB Expense | \$0 | \$0 | \$0 |

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

| | SERS | STRS | Total |
|--|----------|------|----------|
| Deferred Outflows of Resources | | | |
| District contributions subsequent to the measurement date | \$ 1,528 | \$ - | \$ 1,528 |
| Total Deferred Outflows of Resources | \$ 1,528 | \$ - | \$ 1,528 |

\$1,528 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

| | SERS | STRS | Total |
|-----------------------------|------|------|-------|
| Fiscal Year Ending June 30: | | | |
| 2019 | \$0 | \$0 | \$0 |
| 2020 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 |
| 2022 | 0 | 0 | 0 |
| Total | \$0 | \$0 | \$0 |

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.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

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.

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:

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|------------------------------|---|
| 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 | <u>100.00 %</u> | |

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.

Sensitivity of the School'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.

| | <u>1% Decrease (2.63%)</u> | <u>Current Discount Rate (3.63%)</u> | <u>1% Increase (4.63%)</u> |
|---|--------------------------------|--|--------------------------------|
| School's proportionate share of the net OPEB liability | \$0 | \$0 | \$0 |

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

| | 1% Decrease (6.5% decreasing to 4.0 percent) | Current Trend Rate (7.5% decreasing to 5.0 percent) | 1% Increase (8.5% decreasing to 6.0 percent) |
|---|--|--|--|
| School's proportionate share of the net OPEB liability | \$0 | \$0 | \$0 |

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.

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.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

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.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return *</u> |
|----------------------|------------------------------|--|
| 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 | <u>100.00 %</u> | |

* 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.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

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.

Sensitivity of the School'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%) |
|--|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net pension liability | \$0 | \$0 | \$0 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|--|-------------|-----------------------|-------------|
| School's proportionate share of the net pension liability | \$0 | \$0 | \$0 |

NOTE 11 – EMPLOYEE BENEFITS

Insurance Benefits - The School has purchased insurance from Aetna to provide employee medical, dental, life, and vision.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 12 – PURCHASED SERVICES

During the fiscal year ended June 30, 2018, purchased service expenses for services rendered by various vendors were as follows:

| | |
|---|---------------------|
| Health Services | \$ 16,604 |
| Management Services | 231,949 |
| Data Processing Services | 37,500 |
| Other Professional and Technical Services | 267,663 |
| Other Property Services | 103,638 |
| Rentals | 159,390 |
| Travel and Meeting Expense | 497 |
| Advertising | 5,894 |
| Utilities | 22,697 |
| Pupil Transportation | 53,143 |
| Postage | 418 |
| Other Communication Services | 8,706 |
| Contracted Food Services | 119,305 |
| Total | <u>\$ 1,027,404</u> |

NOTE 13 – CONTRACTED FISCAL SERVICES

The School is a party to a fiscal services agreement with Mangan1 (M1) Education Financial Services, which is an education finance consulting company. The Agreement may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M1 will perform the following services:

1. Financial Management Services
2. Treasurer/Accounting Services
3. CCIP Administration

The School made no payments for services during fiscal year 2018. As of June 30, 2018, the School owed M1 \$96,209 for services rendered.

NOTE 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.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 14 – CONTINGENCIES (Continued)

The effect of any such disallowed claims on the overall financial position of the School at June 30, 2018, if applicable, cannot be determined at this time. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at fiscal year-end.

b. Foundation Funding

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 2018 and determined the School was underpaid by \$4,365. This amount is reported as intergovernmental receivable on the statement of net position.

NOTE 15 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2018, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and related guidance from GASB Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

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

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense. These changes were incorporated in the School's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

Other GASB Statements implemented in fiscal year 2018 are as follows:

GASB Statement No. 81 "Irrevocable Split-Interest Agreements" improves financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement did not have an effect on the financial statements of the School.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 15 – CHANGES IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 86 “Certain Debt Extinguishment Issues” improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of this statement did not have an effect on the financial statements of the School.

NOTE 16 – RELATED PARTY TRANSACTION

M1 was under contract to provide financial management services, Treasurer/accounting services and CCIP administration, as described in Note 13. In addition, the Mangen Family Foundation has loaned funds to the School, as described in Note 6. M1 and the Mangen Family Foundation are related parties.

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

LAST FISCAL YEAR (1)

| | <u>2018</u> |
|--|-------------|
| Contractually Required Pension Contribution | \$ 8,476 |
| Contributions in Relation to the Contractually Required Pension Contribution | \$ 8,476 |
| Contribution Deficiency (Excess) | \$ - |
| Covered Payroll | \$ 62,786 |
| Pension Contributions as a Percentage of Covered Payroll | 13.50% |

(1) Fiscal year 2018 was the School's first year of operation.

See accompanying notes to the required supplementary information

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

LAST FISCAL YEAR (1)

| | <u>2018</u> |
|--|-------------|
| Contractually Required Pension Contribution | \$ 90,035 |
| Contributions in Relation to the Contractually Required Pension Contribution | \$ 90,035 |
| Contribution Deficiency (Excess) | \$ - |
| Covered Payroll | \$ 643,110 |
| Pension Contributions as a Percentage of Covered Payroll | 14.00% |

(1) Fiscal year 2018 was the School's first year of operation.

See accompanying notes to the required supplementary information

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

LAST FISCAL YEAR (1)

| | <u>2018</u> |
|---|-------------|
| Contractually Required OPEB Contribution (2) | \$ 1,528 |
| Contributions in Relation to the Contractually Required OPEB Contribution | \$ 1,528 |
| Contribution Deficiency (Excess) | \$ - |
| Covered Payroll | \$ 62,786 |
| OPEB Contributions as a Percentage of Covered Payroll (2) | 2.43% |

(1) Fiscal year 2018 was the School's first year of operation.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

LAST FISCAL YEAR (1)

| | <u>2018</u> |
|---|-------------|
| Contractually Required OPEB Contribution | \$ - |
| Contributions in Relation to the Contractually Required OPEB Contribution | \$ - |
| Contribution Deficiency (Excess) | \$ - |
| Covered Payroll | \$ 643,110 |
| OPEB Contributions as a Percentage of Covered Payroll | 0.00% |

(1) Fiscal year 2018 was the School's first year of operation.

See accompanying notes to the required supplementary information

Southwest Ohio Preparatory School
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Net Pension Liability

School Employees Retirement System

Changes in benefit terms:

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00% to a cost-of-living adjustment 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 enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in assumptions:

There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for fiscal year 2018.

State Teachers Retirement System

Changes in benefit terms:

For fiscal year 2018, the COLA was reduced to zero.

Changes in assumptions:

For fiscal year 2018, the STRS Board adopted several assumption changes, including changes to:

- Inflation assumption lowered from 2.75% to 2.50%;
- Investment return assumption lowered from 7.75% to 7.45%;
- Total salary increases rates lowered by decreasing merit component of the individual salary increases, as well as by 0.25% due to lower inflation;
- Payroll growth assumption lowered to 3.00%;
- Updated the healthy and disabled mortality assumption to the “RP-2014” mortality tables with generational improvement scale MP-2016; and
- Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Southwest Ohio Preparatory School
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Net OPEB Liability

School Employees Retirement System

Changes in benefit terms:

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

Changes in Assumptions:

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 |

State Teachers Retirement System

Changes in benefit terms:

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

Changes in Assumptions:

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.

OHIO AUDITOR OF STATE KEITH FABER



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

Southwest Ohio Preparatory School
Hamilton County
5555 Little Flower Avenue
Cincinnati, Ohio 45239

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of the Southwest Ohio Preparatory School, Hamilton County, (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 24, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

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



Keith Faber
Auditor of State

Columbus, Ohio

June 24, 2019

OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Southwest Ohio Preparatory School
Hamilton County
5555 Little Flower Avenue
Cincinnati, Ohio 45239

To the Board of Education:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Southwest Ohio Preparatory School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 and Ohio Rev. Code Section 3314.03(a)(11)(d) for the period ended June 30, 2018. Management is responsible for complying with this requirement. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We inspected the Board minutes and observed that the Board adopted an anti-harassment policy at its meeting on August 8, 2017.

Ohio Rev. Code Section 3313.666(B) and Ohio Rev. Code Section 3314.03(a)(11)(d) specifies the following requirements must be included in anti-harassment policies. We inspected the policy for proper inclusion of these requirements:

1. A statement prohibiting harassment, intimidation, or bullying of any student on school property, on a school bus, or at school-sponsored events and expressly providing for the possibility of suspension of a student found responsible for harassment, intimidation, or bullying by an electronic act;
2. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666. The act defines that term as “any intentional written, verbal, electronic or physical act that a student has exhibited toward another particular student more than once and the behavior both (1) causes mental or physical harm to the other student, (2) is sufficiently severe, persistent, or pervasive that it creates an intimidating, threatening, or abusive educational environment for the other student,” and violence within a dating relationship;
3. A procedure for reporting prohibited incidents;
4. A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
5. A requirement that the custodial parent or guardian of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

6. A procedure for documenting any prohibited incident that is reported;
7. A procedure for responding to and investigating any reported incident;
8. A strategy for protecting a victim from new or additional harassment, intimidation, or bullying, and from retaliation following a report, including a means by which a person may report an incident anonymously;
9. A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
10. A statement prohibiting students from deliberately making false reports of harassment, intimidation, or bullying and a disciplinary procedure for any student responsible for deliberately making a false report of that nature; and,
11. A requirement that the administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

The policy was compliant with all requirements listed in Ohio Rev. Code 3313.666 except the items listed below:

1. A means by which a person may report an incident anonymously;
2. A statement prohibiting students from deliberately making false reports of harassment, intimidation, or bullying and a disciplinary procedure for any student responsible for deliberately making a false report of that nature; and,
3. A requirement that the administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is to provide assistance in the evaluation of whether the School has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 and is not suitable for any other purpose.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State

Columbus, Ohio

June 24, 2019

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**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

FINDING NUMBER 2018-001

Noncompliance

Ohio Rev. Code § 3314.50 states that no community school shall initiate operation, on or after the effective date of this amendment, unless the governing authority of the school has posted a bond in the amount of fifty thousand dollars with the auditor of state. The bond shall be used, in the event the school closes, to pay the auditor of state any moneys owed or that become owed by the school for the costs of audits conducted by the auditor of state or a public accountant under Chapter 117 of the Revised Code.

This section further states, in lieu of the bond, the governing authority of the school, the school's sponsor, or an operator that has a contract with the school may deposit with the auditor of state cash in the amount of fifty thousand dollars as guarantee of payment under the provisions of this section. In lieu of a bond or a cash deposit, the school's sponsor or an operator that has a contract with the school may provide a written guarantee of payment, which shall obligate the school's sponsor or the operator that provides the written guarantee to pay the cost of audits of the school under this section up to the amount of fifty thousand dollars. Any such written guarantee shall be binding upon any successor entity that enters into a contract to sponsor or to operate the school, and any such entity, as a condition of its undertaking shall acknowledge and accept such obligation. No community school that is subject to the provisions of this section shall maintain or continue its operations absent the ongoing provision of a bond, a cash deposit, or a written guarantee as required by this section.

On April 17, 2017, the School's operator, Dynamic Education Group, provided a written guarantee of \$50,000 to the Auditor of State of Ohio to meet the requirements of the Ohio Rev. Code Section 3314.50. However, on June 5, 2018, the School discontinued the use of Dynamic Education Group as the School's operator. The School has been without an operator since.

No other bond or written guarantee, nor a cash deposit, have been provided to the Auditor of State of Ohio to replace the former operator's written guarantee. Therefore, the School has not been in compliance with Ohio Rev. Code § 3314.50 since June 5, 2018, and may lose its ability to continue operating, as determined by the Ohio Department of Education.

We recommend that the School either post the required bond, deposit the \$50,000 guarantee, or the School's sponsor and/or new operator provide the required written guarantee to the Auditor of State of Ohio. If the School remains in non-compliance, it risks closure by the Ohio Department of Education.

This matter will be referred to the Ohio Department of Education.

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OHIO AUDITOR OF STATE KEITH FABER



SOUTHWEST OHIO PREPARATORY SCHOOL

HAMILTON 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
AUGUST 20, 2019**