Rea & associates a brighter way

Stepstone Academy

Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

Board of Education
Stepstone Academy
2121 East 32nd Street
Cleveland, Ohio 44115

We have reviewed the *Independent Auditor's Report* of the Stepstone Academy, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

March 1, 2019

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STEPSTONE ACADEMY
CUYAHOGA COUNTY, OHIO

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December 26, 2018

To the Board of Trustees
Stepstone Academy
2121 East 32nd Street
Cleveland, Ohio 44115

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Stepstone Academy, Cuyahoga 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 15 to the financial statements, the School restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and financial reporting for Postemployment Benefits other than Pensions." Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As disclosed in Note 16 to the financial statements, the School has suffered recurring losses from operations and has a net position deficit of $3,440,959 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability, net opeb liability, and related accruals totaling $2,373,842. Note 17 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, *Schedule of the School's Proportionate Share of the Net Pension Liability, Schedule of the School's Contributions - Pension, Schedule of the School's Proportionate Share of the Net OPEB Liability,* and the *Schedule of the School's Contributions - OPEB* on pages 5–11, 47-48, 49-50, 51-52, and 53-54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2018 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018 (UNAUDITED)

The discussion and analysis of the Stepstone Academy (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 the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (the 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. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A

FINANCIAL HIGHLIGHTS

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

- Total assets and deferred outflows of resources increased by $233,956.
- Total liabilities and deferred inflows of resources decreased by $48,518.
- Total net position increased by $282,474.
- Total operating and non-operating revenues were $3,202,920. Total operating expenses were $2,920,446.
- The School implemented GASB Statement No. 75 and restated net position previously reported. See Note 15.

USING THIS ANNUAL REPORT

This report consists of three parts: the required supplementary information, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how the School did financially during fiscal year 2018. These statements include all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net position and changes in those assets. This change in net position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's' student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors. The School uses enterprise presentation for all of its activities.

Statement of Net Position **-** The Statement of Net Position answers the question of how the School did financially during 2018. This statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource 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.

Table 1 provides a summary of the School's Net Position for fiscal years 2018 and 2017.

Table 1
Statement of Net Position

	2018	Restated 2017
Assets		
Current Assets	$ 126,401	$ 237,111
Capital Assets, Net of Accumulated Depreciation	218,863	217,895
Total Assets	345,264	455,006
Deferred Outflows of Resources	2,470,496	2,126,798
Liabilities		
Current Liabilities	1,412,381	512,393
Net Pension Liability	3,770,811	4,700,781
Net OPEB Liability	759,400	904,520
Total Liabilities	5,942,592	6,117,694
Deferred Inflows of Resources	314,127	187,543
Net Position		
Investment in Capital Assets	218,863	217,895
Unrestricted	(3,659,822)	(3,941,328)
Total Net Position	$ (3,440,959)	$ (3,723,433)

Current assets represent cash and cash equivalents, grants receivable, accounts receivable, other receivables and other assets. Current liabilities represent advances payable to the management company, intergovernmental payables and accrued expenses at fiscal year-end.

Current assets decreased $110,710 or 47% from the prior fiscal year due to decreases in cash and cash equivalents and grants receivables. Current liabilities increased $899,988 or 176% from the prior fiscal year due to an increase in advances payable.

Statement of Net Position (continued)

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the School adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB).

For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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

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

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

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

Statement of Net Position (continued)

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

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the

control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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

As a result of implementing GASB 75, the School is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($2,824,206) to ($3,723,433).

Over time, net position can serve as a useful indicator of a governments financial position. At June 30, 2018, the School's net position totaled $(3,440,959), of which, $(2,373,342) is related to the net pension/OPEB liability and related accruals.

<u>Statement of Revenues, Expenses and Change in Net Position</u> **-** Table 2 shows the change in net position for fiscal years 2018 and 2017, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2
Change in Net Position

	2018	2017
Operating Revenue		
State Aid	$2,116,718	$ 2,389,813
Intergovernmental Revenue	6,395	14,715
Total Operating Revenues	2,123,113	2,404,528
Operating Expenses		
Purchased Services	3,642,325	3,685,788
Pension/OPEB Expense	(881,466)	936,004
Sponsor Fees	61,980	69,934
Depreciation	97,607	104,500
Total Operating Expenses	2,920,446	4,796,226
Operating (Loss)	(797,333)	(2,391,698)
Non-Operating Revenues		
Federal Grants	560,825	652,399
Other Intergovernmental Revenue	222,489	147,583
Other Grants	-	7,679
Fundraising Revenue	296,493	677,335
Total Non-Operating Revenues	1,079,807	1,484,996
Change in Net Position	$ 282,474	$ (906,702)

State Aid decreased by $(273,095) due to a decrease in full-time equivalent enrollment of approximately 37 students. Federal grant funds decreased while Other Intergovernmental Revenue increased $74,906 due to a change in CMSD funding. The change in pension/OPEB expense is further discussed in Notes 9 and 10. [illegible]

Statement of Revenues, Expenses and Change in Net Position (continued)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $5,293 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $145,303. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$ 2,920,446
Negative OPEB expense under GASB 75	145,303
2018 contractually required contribution	4,728
Adjusted 2018 program expenses	3,070,477
Total 2017 program expenses under GASB 45	4,796,226
Decrease in program expenses not related to OPEB	$ 1,725,749

CAPITAL ASSETS

At fiscal year end, the School's net capital asset balance was $218,863. This balance represents current year additions of $98,576, offset by current year depreciation of $97,607. For more information on capital assets, see Note 5 of the Basic Financial Statements.

CURRENT FINANCIAL ISSUES

The School is a community school and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue. In fiscal year 2018, the State raised the base per pupil funding to $6,010 which is up from the $6,000 in the previous year.

The full-time equivalent enrollment of the School for the years ended June 30, 2018 and 2017 was 256 and 293, respectively.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of students.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 2121 East 32nd Street, Cleveland, Ohio 44115 or e-mail at dave@massasolutionsllc.com.

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STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO
Statement of Net Position
At June 30, 2018

	2018
Assets	
Current Assets:	
Cash and Cash Equivalents	$ 45,138
Grants Receivable	44,028
Other Receivables	6,635
Other Assets	30,600
Total Current Assets	126,401
Noncurrent Assets:	
Depreciable Capital Assets, net	218,863
Total Noncurrent Assets	218,863
Total Assets	345,264
Deferred Outflows of Resources	
Pension	2,353,610
OPEB	116,886
Total Deferred Outflows of Resources	2,470,496
Liabilities	
Current Liabilities:	
Advances Payable	1,348,528
Accrued Expenses	61,811
Intergovernmental Payable	2,042
Total Current Liabilities	1,412,381
Long-Term Liabilities:	
Net Pension Liability (See Note 9)	3,770,811
Net OPEB Liability (See Note 10)	759,400
Total Long-Term Liabilities	4,530,211
Total Liabilities	5,942,592
Deferred Inflows of Resources	
Deferred Fundraising Revenue	24,565
Pension	182,880
OPEB	106,682
Total Deferred Inflows of Resources	314,127
Net Position	
Investment in Capital Assets	218,863
Unrestricted	(3,659,822)
Total Net Position	$ (3,440,959)

See accompanying notes to the basic financial statements.

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

Statement of Revenues, Expenses and Change in Net Position For the Year Ending June 30, 2018

	2018
Operating Revenues	
State Aid	$ 2,116,718
Intergovernmental Revenue	6,395
Total Operating Revenues	2,123,113
Operating Expenses	
Purchased Services	3,642,325
Pension/OPEB Expense	(881,466)
Sponsor Fees	61,980
Depreciation	97,607
Total Operating Expenses	2,920,446
Operating (Loss)	(797,333)
Non-Operating Revenues	
Federal Grants	560,825
Other Intergovernmental Revenue	222,489
Fundraising Revenue	296,493
Total Non-Operating Revenues	1,079,807
Change in Net Position	282,474
Net Position, Beginning of Year, Restated See Note 15	(3,723,433)
Net Position, End of Year	$ (3,440,959)

See accompanying notes to the basic financial statements.

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 2,123,578
Cash Payments to Intergovernmental	6,395
Cash Payments to Suppliers for Goods and Services	(3,214,789)
Net Cash (Used for) Operating Activities	(1,084,816)
Cash Flows from Non-Capital Financing Activities	
Cash Received from Federal Grants	597,376
Cash Received from Fundraising	321,993
Cash Received from Cleveland Municipal School District	222,489
Net Cash Provided by Non-Capital Financing Activities	1,141,858
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Assets	(98,576)
Net Cash Provided by Capital Financing Activities	(98,576)
Net Decrease in Cash and Cash Equivalents	(41,534)
Cash and Cash Equivalents, Beginning of Year	86,672
Cash and Cash Equivalents, End of Year	$ 45,138

(Continued)

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018
(Continued)

RECONCILIATION OF OPERATING LOSS TO NET CASH (USED FOR) OPERATING ACTIVITIES

Operating Loss	$ (797,333)
Depreciation	97,607
Changes in Assets, Deferred Outflows, Liabilities and Deferred Inflows:	
Decrease in Intergovernmental Receivable	8,410
Increase in Other Receivable	(3,592)
Increase in Deferred Outflows	(343,698)
Decrease in Other Assets	2,308
Decrease in Deferred Revenue	(159,712)
Increase in Deferred Inflows	286,296
Decrease in Net Pension / OPEB Liability	(1,075,090)
Decrease in Accrued Wages	(85,746)
Increase in Accrued Expenses	38,651
Increase in Advances Payable	945,041
Increase in Intergovernmental Payable	2,042
Net Cash (Used for) Operating Activities	$ (1,084,816)

See accompanying notes to the basic financial statements.

NOTE 1 - DESCRIPTION OF THE ENTITY

Stepstone Academy, (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The School operates on a foundation, which fosters character building for all students, parents and staff members. 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 acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Ohio Council of Community Schools, ("OCCS") (the Sponsor) for a five-year period commencing on July 1, 2012. The Sponsor renewed the contract for an additional five-year period beginning July 1, 2017. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff. The School contracts with Guidestone, a local not for profit, as a management company to provide daily operations of the School (See Note 12).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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.

Basis of Presentation **-** The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes net position, financial position and cash flows.

The Government Accounting Standards Board identifies the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting **–** Enterprise accounting uses a flow of economic resources method. Under this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual ōl·ǎlǎ of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process **-** Community Schools are statutorily required to adopt a budget by ORC 3314.032(c). However, unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided for in the School's sponsorship agreement. The contract between the School and its Sponsor does not require the School to follow the provisions of ORC 5705; therefore, no budgetary information is presented in the basic financial statements.

Cash and Cash Equivalents **-** Cash received by the School is reflected as "Cash and Cash Equivalents" on the Statement of Net Position. The School did not have any investments during the period ended June 30, 2018.

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 these estimates.

Capital Assets and Depreciation **-** Capital assets are capitalized at cost. Donated capital assets are recorded at their acquisition values as of the date received. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from net position. Capital assets were $218,863 as of June 30, 2018, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets which are as follows:

Asset Class	Useful Life
Computers & Technology Assets	3 years
Leasehold Improvements	5 years
Furniture, Fixtures, & Equipment	5 years
Textbooks	3 years

The School's policy for asset capitalization threshold is $5,000. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompany statement of net position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intergovernmental Revenues **-** The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is 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.

The School also participates in various federal programs passed through the Ohio Department of Education.

Also, during the fiscal year, the School received prorated shares of property tax distributions form the Cleveland Municipal School District (CMSD) as part of a partnership agreement executed between the School and CMSD.

Under the above programs the School recorded $2,116,718 this fiscal year from the State Foundation Program, $560,825 from Federal Grants, and $222,489 from CMSD property taxes distributions.

Compensated Absences **-** Vacation is taken in a manner which corresponds with the school calendar; therefore, the School does not accrue vacation time as a liability.

Sick/personal leave benefits are earned by full-time employees at the rate of eight days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

Accrued Liabilities **-** Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of advances from the management company of $1,348, 528, expenses of $61,811 and intergovernmental payable of $2,042 at June 30, 2018.

Exchange and Non-Exchange Transactions **-** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. 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 expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position **-** Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Operating Revenues and Expenses **-** Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2018.

Pensions and 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.

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB are explained in Notes 9 and 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension and OPEB. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the statement of net position. (See Note 9 and 10)

Fundraising Revenue – Donations are recorded at their fair market value on the date donated. Fundraising revenues from the 2018 school year totaled $296,493.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of New Accounting Principles (continued)

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See Note 15 for the effect on net position as previously reported.

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

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

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

NOTE 3 - CASH AND CASH EQUIVALENTS

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

The School maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, per qualifying account. At June 30, 2018, the book amount of the School's deposits was $45,138 and the bank balance was $50,065.

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2018, none of the bank balance was exposed to custodial credit risk.

NOTE 4 - RECEIVABLES

Other Receivable **-** The School has other receivables of $6,635 at June 30, 2018. These receivables represented monies earned, but not received as of June 30, 2018.

Grants Receivable **-** The School had grant receivable balances of federal grant monies totaling $44,028 at June 30, 2018.

NOTE 5 - CAPITAL ASSETS

For the period ending June 30, 2018, the School's capital assets consisted of the following:

	Balance 06/30/17	Additions	Deletions	Balance 06/30/18
Capital Assets:				
Leasehold Improvements	$ 30,483	$ -	$ -	$ 30,483
Computers & Technology Assets	273,142	12,217	-	285,359
Furniture, Fixtures, & Equipment	366,694	81,367	-	448,061
Textbooks	12,099	-	-	12,099
Construction-in-Progress	93,584	4,992	-	98,576
Total Capital Assets	776,002	98,576	-	874,578
Less Accumulated Depreciation:				
Leasehold Improvements	(10,284)	(4,147)	-	(14,431)
Computers & Technology Assets	(246,741)	(26,514)	-	(273,255)
Furniture, Fixtures, & Equipment	(288,984)	(66,946)	-	(355,930)
Textbooks	(12,099)	-	-	(12,099)
Total Accumulated Depreciation	(558,108)	(97,607)	-	(655,715)
Capital Assets, Net	$ 217,894	$ 969	$ -	$ 218,863

NOTE 6 - ADVANCES PAYABLE

The School received advances from the management company. The total amount of advances outstanding at June 30, 2018 was $1,348,528. These account for reimbursable costs paid by the management company on behalf of the School.

	Balance at 06/30/17	Additions	Deductions	Balance at 06/30/18
Ohio Guidestone	$ 403,488	$3,883,079	$(2,938,039)	$1,348,528
Total Advances/Note Payable	$ 403,488	$3,883,079	$(2,938,039)	$1,348,528

NOTE 7 - LONG-TERM OBLIGATIONS

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

	Restated Balance 06/30/17	Additions	Deductions	Balance 06/30/18
Net Pension Liability:				
STRS	$ 4,049,756	$ -	$ (756,306)	$ 3,293,450
SERS	651,025	-	(173,664)	477,361
Total Net Pension Liability	4,700,781	-	(929,970)	3,770,811
Net OPEB Liability:				
STRS	647,035	-	(106,109)	540,926
SERS	257,485	-	(39,011)	218,474
Total Net OPEB Liability	904,520	-	(145,120)	759,400
Total Long-Term Obligations	$ 5,605,301	$ -	$(1,075,090)	$ 4,530,211

NOTE 8 - RISK MANAGEMENT

Property & Liability **-** 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 the fiscal year ending June 30, 2018, the School contracted with The Cincinnati Insurance Company for nonprofits and maintained general liability insurance with a $1,000,000 single occurrence limit and $2,000,000 annual aggregate and a combined policy aggregate coverage for various liability coverage in the amount of $10,000,000.

There were no settlements in excess of the insurance coverages over the past three years, nor has there been a significant reduction in coverage from the prior year.

NOTE 9 - DEFINED BENEFIT PENSIONS 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 *accrued expenses*.

School Employees Retirement System (SERS)

Plan Description – The School's 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.

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

School Employees Retirement System (SERS) (Continued)

Plan Description (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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 14 percent. SERS allocated 0.5 percent of any employer contributions to the Health Care Fund for fiscal year 2018.

The School's contractually required contribution to SERS was $37,022 for fiscal year 2018. Of this amount $895 is reported as an accrued expenses.

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.

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

School Teachers Retirement System (STRS) (continued)

Plan Description (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 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 are to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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.

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

School Teachers Retirement System (STRS) (continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 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 $206,643 for fiscal year 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions **-** The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers.

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

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.00889490%	0.01209857%	
Proportion of the Net Pension Liability Current Measurement Date	0.00798960%	0.01386411%	
Change in Proportionate Share	-0.00090530%	0.00176554%	
Proportionate Share of the Net Pension Liability	$ 477,361	$ 3,293,450	$ 3,770,811
Pension Expense	$ 65,421	$ (804,217)	$ (738,796)

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

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

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

School Teachers Retirement System (STRS) (continued)

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 20,546	$ 127,179	$ 147,725
Changes of assumptions	24,684	720,314	744,998
Changes in proportion and differences between contributions and proportionate share of contributions	138,037	1,079,185	1,217,222
School contributions subsequent to the measurement date	37,022	206,643	243,665
Total Deferred Outflows of Resources	$ 220,289	$ 2,133,321	$ 2,353,610
Deferred Inflows of Resources			
Differences between expected and actual experience	$ -	$ 26,544	$ 26,544
Net difference between projected and actual earnings on pension plan investments	2,265	108,686	110,951
Changes in proportion and differences between contributions and proportionate share of contributions	45,385	-	45,385
Total Deferred Inflows of Resources	$ 47,650	$ 135,230	$ 182,880

$243,665 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ 99,907	$ 617,363	$ 717,270
2020	51,678	639,463	691,141
2021	(4,839)	373,477	368,638
2022	(11,129)	161,145	150,016
Total	$ 135,617	$ 1,791,448	$ 1,927,065

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

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

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

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

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

Actuarial Assumptions – SERS (Continued)

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 averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment 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 investment was applied to all periods of projected benefits to determine the total net 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.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	$ 662,453	$ 477,361	$ 322,309

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

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

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

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study, for the period July 1, 2011 through June 30, 2016.

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

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

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

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

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

Actuarial Assumptions – STRS (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	$ 4,721,047	$ 3,293,450	$ 2,090,912

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

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

NOTE 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 *accrued expenses* on the accrual basis of accounting.

NOTE 10 – DEFINED BENEFIT OPEB PLANS (continued)

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. 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 $0.

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 $4,728 for fiscal year 2018.

NOTE 10 – DEFINED BENEFIT OPEB PLANS (continued)

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.

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

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The 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 Prior Measurement Date	0.00903338%	0.01209857%	
Proportion of the Net OPEB Liability Current Measurement Date	0.00814070%	0.01386411%	
Change in Proportionate Share	-0.00089268%	0.00176554%	
Proportionate Share of the Net OPEB Liability	$ 218,474	$ 540,926	$ 759,400
OPEB Expense	$ 6,269	$ (151,572)	$ (145,303)

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

NOTE 10 – DEFINED BENEFIT OPEB PLANS (continued)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ -	$ 31,226	$ 31,226
Changes in proportion and differences between contributions and proportionate share of contributions	-	80,932	80,932
School contributions subsequent to the measurement date	4,728	-	4,728
Total Deferred Outflows of Resources	$ 4,728	$ 112,158	$ 116,886
Deferred Inflows of Resources			
Changes of assumptions	$ 20,732	$ 43,574	$ 64,306
Net difference between projected and actual earnings on OPEB plan investments	577	23,121	23,698
Changes in proportion and differences between contributions and proportionate share of contributions	18,678	-	18,678
Total Deferred Inflows of Resources	$ 39,987	$ 66,695	$ 106,682

$4,728 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:

NOTE 10 – DEFINED BENEFIT OPEB PLANS (continued)

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

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (14,423)	$ 5,651	$ (8,772)
2020	(14,423)	5,651	(8,772)
2021	(10,996)	5,651	(5,345)
2022	(145)	5,650	5,505
2023	-	11,431	11,431
Thereafter	-	11,429	11,429
Total	$ (39,987)	$ 45,463	$ 5,476

Actuarial Assumptions - SERS

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

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

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

NOTE 10 – DEFINED BENEFIT OPEB PLANS (continued)

Actuarial Assumptions – SERS (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.

NOTE 10 – DEFINED BENEFIT OPEB PLANS (CONTINUED)

Actuarial Assumptions – SERS (Continued)

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

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

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

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.

NOTE 10 – DEFINED BENEFIT OPEB PLANS (continued)

Actuarial Assumptions – SERS (continued)

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School's proportionate share of the net OPEB liability	$ 263,836	$ 218,474	$ 182,537

	1% Decrease (6.5 % decreasing to 4.0%)	Current Trend Rate (7.5 % decreasing to 5.0%)	1% Increase (8.5 % decreasing to 6.0%)
School's proportionate share of the net OPEB liability	$ 177,276	$ 218,474	$ 273,002

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.

NOTE 10 – DEFINED BENEFIT OPEB PLANS (continued)

Actuarial Assumptions – STRS (continued)

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

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

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

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

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

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

NOTE 10 – DEFINED BENEFIT OPEB PLANS (continued)

Actuarial Assumptions – STRS (continued)

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

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 OPEB liability	$ 726,185	$ 540,926	$ 394,512

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB liability	$ 375,812	$ 540,926	$ 758,236

NOTE 11 - CONTINGENCIES

Grants **-** The School received financial assistance from federal and state agencies in the form of grants. Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

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

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform a review on the School for fiscal year 2018.

As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

NOTE 12 - SPONSOR AND MANAGEMENT CONTRACTS

Sponsor **-** The School contracted with Ohio Council of Community Schools as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2018, the total sponsorship fees paid totaled $61,980.

NOTE 12 - SPONSOR AND MANAGEMENT CONTRACTS (CONTINUED)

Management Company **-** The School entered into an agreement with Guidestone, a local nonprofit management company, to provide legal, financial, and other management support services for fiscal year 2018. The agreement was for a period of five years beginning July 1, 2012. The agreement renewed for an additional one-year period ending on June 30, 2018, and has renewed for an additional one year through 2019. Management fees are calculated as 10% of the total revenues received from the State of Ohio in 2018. The total amount paid by the School for the fiscal year ending June 30, 2018 was $211,600 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Change in Net Position. The management company also entered into a five-year lease for the facility which ends May 31, 2017, and subleases the facility to the School. At June 30, 2018 the School had $1,348,528 in outstanding payables due to the management company.

NOTE 13 – MANAGEMENT COMPANY EXPENSES

As of June 30, 2018, Guidestone and its affiliates incurred the following expenses on behalf of the School:

OHIO GUIDSTONE
SCHEDULE OF MANAGEMENT COMPANY EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
Direct expenses:					
Salaries & wages (100 object codes)	$ 1,619,624	$ 128,726	$ 124,899	$ -	$ 1,873,250
Employees' benefits (200 object codes)	276,846	1,219	13,301	-	291,366
Professional & technical services (410 object codes)	-	-	287,121	-	287,121
Property services (420 object codes)	-	-	446,811	-	446,811
Utilities (450 object codes)	-	-	71,160	-	71,160
Contracted craft or trade services (460 object codes)	-	-	25,236	148,452	173,688
Transportation (480 object codes)	-	-	18,655	-	18,655
Supplies (500 object codes)	71,596	-	38,943	-	110,540
Other direct costs (All other object codes)	3,512	-	107,001	-	110,513
Overhead	-	-	211,805	-	211,805
Total expenses	**$ 1,971,579**	**$ 129,945**	**$ 1,344,933**	**$ 148,452**	**$ 3,594,908**

Guidestone allocates indirect cost (overhead) based on a negotiated indirect cost rate per the agreement, based on 10% of state aid revenues. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support, marketing and communications.

NOTE 14 - PURCHASED SERVICES

For the period of July 1, 2017 through June 30, 2018, the School made the following purchased services commitments.

Salaries and Wages and Benefits	$ 2,194,616
Property Services	532,358
Professional and Technical Services	510,503
Curriculum and materials	98,872
Other Direct Costs	305,976
Total Purchased Services	$ 3,642,325

NOTE 15 – RESTATEMENT OF NET POSITION

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	$ (2,824,206)
Adjustments:	
Net OPEB liability	(904,520)
Deferred Outflow - Payments Subsequent to Measurement Date	5,293
Restated Net Position June 30, 2017	$ (3,723,433)

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

NOTE 16 - FISCAL DISTRESS

Several factors have caused the School to experience fiscal distress. The School's cash balance at June 30, 2018 was $45,138. Additionally, the School has significant liabilities including the impact of the net pension/OPEB liabilities and related accruals, at June 30, 2018 which has resulted in a deficit net position of ($3,440,959). Overcoming this deficit may be difficult without significant increases to revenues in order to pay off outstanding liabilities and cover ongoing operating costs.

NOTE 17 - MANAGEMENT PLAN

The amount owed to Guidestone at June 30, 2018 is for unpaid operating expenses and reimbursable costs. Guidestone remains committed to the success of the School both academically and financially. During the current year, stronger student recruitment and enrollments and the use of Federal funds improved the financial performance of the School.

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
SCHOOL EMPLOYE9'S RETIREMENT SYSTEM (SERS) OF OHIO
LAST FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.00798960%	0.00889490%	0.0056236%	0.005732%	0.005732%
School's Proportionate Share of the Net Pension Liability	$ 477,361	$ 651,025	$ 320,888	$ 290,093	$ 340,864
School's Covered Payroll	$ 238,464	$ 369,621	$ 169,302	$ 166,566	$ 54,964
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	200.18%	176.13%	189.54%	174.16%	620.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

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

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

See accompanying notes to required supplementary information.

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO
LAST FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.01386411%	0.01209857%	0.01103313%	0.00787955%	0.00787955%
School's Proportionate Share of the Net Pension Liability	$ 3,293,450	$ 4,049,756	$ 3,049,234	$ 1,916,579	$ 2,283,017
School's Covered Payroll	$ 1,524,186	$ 1,237,836	$ 1,151,121	$ 867,000	$ 627,577
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.08%	327.16%	264.89%	221.06%	363.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

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

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

See accompanying notes to required supplementary information.

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS - Pension
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST SIX FISCAL YEARS (1)

S

	2018	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 37,022	$ 33,385	$ 51,747	$ 22,314	$ 23,086	$ 7,607
Contributions in Relation to the Contractually Required Contribution	(37,022)	(33,385)	(51,747)	(22,314)	(23,086)	(7,607)
Contribution Deficiency (Excess)	-	-	-	-	-	-
School Covered Payroll	$ 274,237	$ 238,464	$ 369,621	$ 169,302	$ 166,566	$ 54,964
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to required supplementary information.

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS - PENSION
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST SIX FISCAL YEARS (1)

	2018	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 206,643	$ 213,386	$ 173,297	$ 161,157	$ 112,710	$ 81,585
Contributions in Relation to the Contractually Required Contribution	(206,643)	(213,386)	(173,297)	(161,157)	(112,710)	(81,585)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -
School Covered Payroll	$ 1,476,021	$ 1,524,186	$ 1,237,836	$ 1,151,121	$ 867,000	$ 627,577
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to required supplementary information.

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of the School’s Proportionate Share of the Net OPEB Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

	2018	2017
School's Proportion of the Net OPEB Liability	0.00814070%	0.00903338%
School's Proportionate Share of the Net OPEB Liability	$ 218,474	$ 257,485
School's Covered Payroll	$ 238,464	$ 369,621
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	91.62%	69.66%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

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

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

See accompanying notes to the required supplementary information

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of the School's Proportionate Share of the Net OPEB Liability
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

	2018	2017
School's Proportion of the Net OPEB Liability	0.01386411%	0.01209857%
School's Proportionate Share of the Net OPEB Liability	$ 540,926	$ 647,035
School's Covered Payroll	$ 1,524,186	$ 1,237,836
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	52.27%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

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

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

See accompanying notes to the required supplementary information

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of the School Contributions – OPEB
School Employees Retirement System of Ohio
Last Six Fiscal Years (1)

	2018	2017	2016	2015	2014	2013
Contractually Required Contribution (2)	$ 4,728	$ 5,293	$ 4,654	$ 1,388	$ 1,266	$ 407
Contributions in Relation to the Contractually Required Contribution	(4,728)	(5,293)	(4,654)	(1,388)	(1,266)	(407)
Contribution Deficiency (Excess)	-	-	-	-	-	-
School Covered Payroll	$ 274,237	$ 238,464	$ 369,621	$ 169,302	$ 166,566	$ 54,964
OPEB Contributions as a Percentage of Covered Payroll (2)	1.72%	2.22%	1.26%	0.82%	0.76%	0.74%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.
(2) Includes Surcharge

See accompanying notes to the required supplementary information

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of the School Contributions – OPEB
State Teachers Retirement System of Ohio
Last Six Fiscal Years (1)

	2018	2017	2016	2015	2014	2013
Contractually Required Contribution	$ -	$ -	$ -	$ -	$ 8,670	$ 6,276
Contributions in Relation to the Contractually Required Contribution	-	-	-	-	(8,670)	(6,276)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -
School Covered Payroll	$ 1,476,021	$ 1,524,186	$ 1,237,836	$ 1,151,121	$ 867,000	$ 627,577
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to required supplementary information.

STEPSTONE ACADEMY
CUYAHOGA COUNTY, OHIO

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

NET PENSION LIABILITY

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes of benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

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

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016 and 2018. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement (h) change in discount rate from 7.75% to 7.5%.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) inflation assumption lowered from 2.75% to 2.50%, (b) investment return assumption lowered from 7.75% to 7.45%, (c) total salary increases rates lowered by decreasing the merit component of the individual salary increases, as well as by 0.25% due to lower inflation, (d) payroll growth assumption lowered to 3.00%, (e) updated the healthy and disable mortality assumption to the "RP-2014" mortality tables with generational improvement scale MP-2016, (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

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

NET OPEB LIABILITY

Changes in Assumptions – SERS

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

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

Changes in Assumptions – STRS

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

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

December 26, 2018

To the Board of Trustees
Stepstone Academy
2121 East 32^{nd} Street
Cleveland, Ohio 44115

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Stepstone Academy, Cuyahoga 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, and have issued our report thereon dated December 26, 2018, in which we noted the School restated their net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and Financial reporting for Postemployment Benefits other than Pensions", and the School has suffered recurring losses from operations and has a net position deficit of $3,440,959, including the net effect of net pension liability, net opeb liability and related accruals totaling $2,373,842, that raises substantial doubt about its ability to continue as a going concern.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Medina, Ohio

OHIO AUDITOR OF STATE
KEITH FABER

STEPSTONE ACADEMY

CUYAHOGA COUNTY

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 14, 2019