STEPSTONE ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

Dave Yost • Auditor of State

STEPSTONE ACADEMY
CUYAHOGA COUNTY
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Stepstone Academy
Cuyahoga County
2121 East 32nd Street
Cleveland, Ohio 44115

To the Board of Directors:

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, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stepstone Academy, Cuyahoga County, Ohio, as of June 30, 2017, and the respective changes in financial position and it's cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 15 and 16 to the financial statements, the School has suffered losses from operations and has a net position deficiency. Notes 15 and 16 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainly. This matter does not affect our opinion on these financial statements

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2018, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

March 16, 2018

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, 2017. The intent of this discussion and analysis is to look at the School's' financial performance as a whole; readers should also review the basic financial statements and 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 2016-17 school year are as follows:

- Total assets and deferred outflows of resources increased by $318,623.
- Total liabilities and deferred inflows of resources increased by $1,255,325.
- Total net position decreased by $(906,702).
- Total operating and non-operating revenues were $3,889,524. Total operating expenses were $4,796,226.

USING THIS ANNUAL REPORT

This report consists of four parts: the MD&A, the basic financial statements, notes to those statements and required supplemental information. 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 2017. 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 net position. 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 2017. 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 2017 and 2016.

Table 1
Statement of Net Position

	2017	2016
Assets		
Current Assets	$ 237,111	$ 261,722
Capital Assets, Net of Accumulated Depreciation	217,895	366,857
Total Assets	455,006	628,579
Deferred Outflows of Resources	2,121,505	1,599,309
Liabilities		
Current Liabilities	512,393	403,375
Net Pension Liability	4,700,781	3,370,122
Total Liabilities	5,213,174	3,773,497
Deferred Inflows of Resources	187,543	371,895
Net Position		
Net Investment in Capital Assets	217,895	366,857
Unrestricted	(3,042,101)	(2,284,361)
Total Net Position	$ (2,824,206)	$ (1,917,504)

During 2015, the School adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Statement of Net Position (continued)

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

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

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

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

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

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the School's net position totaled $(2,824,206).

Statement of Net Position (continued)

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

Current liabilities increased $109,018 or 27% from the prior fiscal year due to an increase in advances payable.

Statement of Revenues, Expenses and Change in Net Position **-** Table 2 shows the change in net position for fiscal years 2017 and 2016, 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

	2017	2016
Operating Revenue		
State Aid	$2,389,813	$ 2,477,829
Intergovernmental Revenue	14,715	15,447
Other	-	132
Total Operating Revenues	2,404,528	2,493,408
Operating Expenses		
Purchased Services	3,685,788	3,528,621
Pension Expense	936,004	404,452
Sponsor Fees	69,934	72,790
Depreciation	104,500	111,245
Total Operating Expenses	4,796,226	4,117,108
Operating (Loss)	(2,391,698)	(1,623,700)
Non-Operating Revenues		
Federal Grants	652,399	648,630
Other Intergovernmental Revenue	147,583	269,527
Other Grants	7,679	56,150
Fundraising Revenue	677,335	651,521
Total Non-Operating Revenues	1,484,996	1,625,828
Change in Net Position	(906,702)	2,128
Net Position, Beginning of Year,	(1,917,504)	(1,919,632)
Net Position, End of Year	$(2,824,206)	$ (1,917,504)

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

State Aid decreased by $(88,016) due to a decrease in full-time equivalent enrollment of approximately eight students. Federal grant funds remained consistent while Other Intergovernmental Revenue decreased $(121,944) due to a change in Cleveland Municipal School District (CMSD) funding.

BUDGET

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its Sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, annually.

CAPITAL ASSETS

At fiscal year end, the School's net capital asset balance was $217,895. This balance represents current year additions of $123,392, offset by current year depreciation of $104,500. 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 2017, the State raised the base per pupil funding to $6,000 which is up from the $5,900 in the previous year.

The full-time equivalent enrollment of the School for the years ended June 30, 2017 and 2016 was 293 and 301, 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, 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, 2017

		2017
Assets		
Current Assets:		
Cash and Cash Equivalents	$	86,672
Grants Receivable		80,580
Intergovernmental Receivable		8,410
Other Receivables		28,541
Other Assets		32,908
Total Current Assets		237,111
Noncurrent Assets:		
Depreciable Capital Assets, net		217,895
Total Assets		455,006
Deferred Outflows of Resources - Pension		2,121,505
Liabilities		
Current Liabilities:		
Advances Payable		403,487
Accrued Expenses		23,160
Accrued Wages and Benefits		85,746
Total Current Liabilities		512,393
Long-Term Liabilities:		
Net Pension Liability (See Note 9)		4,700,781
Total Liabilities		5,213,174
Deferred Inflows of Resources		
Deferred Fundraising Revenue		184,277
Pension		3,266
Total Deferred Inflows of Resources		187,543
Net Position		
Net Investment in Capital Assets		217,895
Unrestricted		(3,042,101)
Total Net Position	$	(2,824,206)

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, 2017

	2017
Operating Revenues	
State Aid	$ 2,389,813
Intergovernmental Revenue	14,715
Total Operating Revenues	2,404,528
Operating Expenses	
Purchased Services	3,685,788
Pension Expense	936,004
Sponsor Fees	69,934
Depreciation	104,500
Total Operating Expenses	4,796,226
Operating (Loss)	(2,391,698)
Non-Operating Revenues	
Federal Grants	660,078
Other Intergovernmental Revenue	147,583
Fundraising Revenue	677,335
Total Non-Operating Revenues	1,484,996
Change in Net Position	(906,702)
Net Position, Beginning of Year	(1,917,504)
Net Position, End of Year	$ (2,824,206)

See accompanying notes to the basic financial statements.

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 2,422,922
Cash Payments to Other Entities	(55,779)
Cash Payments to Suppliers for Goods and Services	(4,097,868)
Net Cash (Used for) Operating Activities	(1,730,725)
Cash Flows from Non-Capital Financing Activities	
Cash Received from Federal Grants	579,499
Cash Received from Fundraising	667,756
Cash Received from Cleveland Municipal School District	270,540
Net Cash Provided by Non-Capital Financing Activities	1,517,795
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Assets	(123,392)
Gain on Disposal of Capital Assets	167,855
Advances from Guidestone	3,761,627
Payments to Guidestone	(3,561,021)
Net Cash Provided by Capital Financing Activities	245,069
Net Increase in Cash and Cash Equivalents	32,138
Cash and Cash Equivalents, Beginning of Year	54,533
Cash and Cash Equivalents, End of Year	$ 86,672

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

Operating Loss	$ (2,391,698)
Depreciation	104,500
Changes in Assets, Deferred Outflows, Liabilities and Deferred Inflows:	
(Increase) in Intergovernmental Receivable	(55,779)
Decrease in Accounts Receivable	18,395
(Increase) in Deferred Outflows	(522,196)
Decrease in Other Assets	17,007
(Decrease) in Deferred Inflows	(184,352)
Increase in Net Pension Liability	1,330,659
Increase in Accrued Expenses	96,335
(Decrease) in Accrued Wages and Benefits	(143,595)
Net Cash (Used for) Operating Activities	$ (1,730,725)

See accompanying notes to the basic financial statements.

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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 University of Toledo, ("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.

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 Revenue, Expenses and Change in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes in 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 **-** The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows are included on the Statement of Net Position. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

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

Budgetary Process **-** Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 (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 requires a detailed budget for each year of the contract.

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, 2017.

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 expense 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 $217,895 as of June 30, 2017, net of accumulated depreciation. All reported capital assets except construction-in-progress are depreciated. 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 from 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 $2,389,813 this fiscal year from the State Foundation Program, $660,078 from Federal Grants, and $147,583 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 $403,487, accrued expenses of $23,160, accrued wages and benefits of $85,746 at June 30, 2017.

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)

Deferred Inflows and Deferred Outflows of Resources **-** In addition to assets, the statement of net 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) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 9.

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

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, 2017.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of New Accounting Principles (continued)

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

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

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

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, Key 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, 2017, the book amount of the School's deposits was $86,672 and the bank balance was $91,538.

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, 2017, none of the bank balance was exposed to custodial credit risk.

NOTE 4 - RECEIVABLES

Other Receivable **-** The School has other receivables of $28,541 at June 30, 2017. These receivables represented monies earned, but not received as of June 30, 2017.

Intergovernmental Receivable **-** The School has intergovernmental receivables totaling $8,410 at June 30, 2017. These receivables represented monies due to the School from government sources, but not received as of June 30, 2017.

Grants Receivable **-** The School had grant receivable balances for federal grant monies totaling $80,580 at June 30, 2017.

NOTE 5 - CAPITAL ASSETS

For the period ending June 30, 2017, the School's capital assets consisted of the following:

	Balance 06/30/16	Additions	Deletions	Balance 06/30/17
Capital Assets:				
Leasehold Improvements	$ 18,620	$ 11,863	$ -	$ 30,483
Computers & Technology Assets	262,877	10,265	-	273,142
Furniture, Fixtures, & Equipment	359,015	7,679	-	366,694
Textbooks	12,099	-	-	12,099
Construction-in-Progress	167,855	93,585	(167,855)	93,585
Total Capital Assets	820,466	123,392	(167,855)	776,003
Less Accumulated Depreciation:				
Leasehold Improvements	(6,515)	(3,769)	-	(10,284)
Computers & Technology Assets	(217,935)	(28,806)	-	(246,741)
Furniture, Fixtures, & Equipment	(217,060)	(71,924)	-	(288,984)
Textbooks	(12,099)	-	-	(12,099)
Total Accumulated Depreciation	(453,609)	(104,499)	-	(558,108)
Capital Assets, Net	$ 366,857	$ 18,893	$ (167,855)	$ 217,895

NOTE 6 - ADVANCES PAYABLE

The School received advances from the management company. The total amount of advances outstanding at June 30, 2017 was $403,487. The disposal of the Construction-in-Progress assets of $167,855 was included as reduction in the advance as the total project cost has been incurred by the management company.

NOTE 7 - LONG-TERM OBLIGATIONS

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

	Principal Outstanding 06/30/16	Additions	Deductions	Principal Outstanding 06/30/17
Net Pension Liability:				
STRS	$ 3,049,234	$1,000,522	$ -	$ 4,049,756
SERS	320,888	330,137	-	651,025
Total Net Pension Liability	3,370,122	1,330,659	-	4,700,781
Total Long-Term Obligations	$ 3,370,122	$1,330,659	$ -	$ 4,700,781

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, 2017, 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.

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS

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.

Net Pension Liability **-** 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.

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

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.

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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

School Employees Retirement System (SERS) (continued)

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

The School's contractually required contribution to SERS was $33,385 for fiscal year 2017.

State Teachers Retirement System (STRS)

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

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

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

School Teachers Retirement System (STRS) (continued)

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.

Plan Description (continued)

payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

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

The School's contractually required contribution to STRS was $213,386 for fiscal year 2017.

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

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

School Teachers Retirement System (STRS) (continued)

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 4,049,756	$ 651,025	$ 4,700,781
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01209857%	0.00889490%	
Prior Measurement Date	0.01103313%	0.00562360%	
Change in Proportionate Share	0.00106544%	0.00327130%	
Pension Expense	$ 762,794	$ 166,744	$ 929,538

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – (continued)

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

$246,771 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	$ 444,672	$ 125,585	$ 570,257
2019	444,671	123,701	568,372
2020	447,939	76,597	524,536
2021	192,869	15,435	208,304
	$ 1,530,151	$ 341,318	$ 1,871,469

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – (continued)

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

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

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

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

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

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

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

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 asset 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. A discount rate of 7.75 percent was used in the prior measurement period. 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	$ 861,916	$ 651,025	$ 474,500

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

Actuarial Assumptions – STRS **-** The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

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

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

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

NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)

Actuarial Assumptions – STRS (continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's Proportionate Share of the Net Pension Liability	$ 5,381,797	$ 4,049,756	$ 2,926,101

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

NOTE 10 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System (SERS)

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

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

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

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2017, 2016, and 2015 were $4,654, $3,026, $1,388, respectively. The full amount has been contributed for fiscal years 2017, 2016 and 2015.

School Teachers Retirement Systems (STRS)

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

NOTE 10 - POSTEMPLOYMENT BENEFITS (continued)

School Teachers Retirement Systems (STRS) (continued)

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

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 performed such a review on the School for fiscal year 2017.

As of the date of this report, ODE adjustments for fiscal year 2017 are finalized. The impact of the FTE adjustments was immaterial.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, the FTE adjustments for fiscal year 2017 were finalized and the impact of the FTE adjustments was immaterial; therefore, the financial statements were not adjusted.

NOTE 12 - SPONSOR AND MANAGEMENT CONTRACTS

Sponsor **-** The School contracted with The University of Toledo 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, 2017, the total sponsorship fees paid totaled $69,934.

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 2017. 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. Management fees are calculated as 10% of the total revenues received from the State of Ohio in 2017. The total amount paid by the School for the fiscal year ending June 30, 2017 was $238,922 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.

NOTE 13 – MANAGEMENT COMPANY EXPENSES

As of June 30, 2017, Guidestone and its affiliates incurred the following expenses on behalf of the School:

	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)	$ 1,646,383	$ 88,179	$ 133,174	$ -	$ 1,867,736
Employees' benefits (200 object codes)	192,990	23,974	16,378	-	233,342
Professional & technical services (410 object codes)	-	-	316,835	-	316,835
Property services (420 object codes)	-	-	445,053	-	445,053
Utilities (450 object codes)	-	-	55,020	-	55,020
Contracted craft or trade services (460 object codes)	-	-	37,853	181,061	218,914
Transportation (480 object codes)	-	-	23,483	-	23,483
Supplies (500 object codes)	93,282	-	39,024	-	132,306
Other direct costs (All other object codes)	3,007	-	145,408	-	148,415
Indirect Expenses:					
Overhead	-	-	238,834	-	238,834
Total Expenses	**$ 1,935,662**	**$ 112,153**	**$ 1,451,062**	**$ 181,061**	**$ 3,679,938**

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, 2016 through June 30, 2017, the School made the following purchased services commitments.

Salaries and Wages and Benefits	$ 2,124,987
Property Services	503,688
Professional and Technical Services	568,538
Curriculum and materials	128,602
Other Direct Costs	359,973
Total Purchased Services	$ 3,685,788

NOTE 15 - FISCAL DISTRESS

Several factors have caused the School to experience fiscal distress. The School's cash balance at June 30, 2017 was $86,672. Additionally, the School has significant liabilities at June 30, 2017 which has resulted in a deficit net position of ($2,824,206). Overcoming this deficit may be difficult without significant increases to revenues in order to pay off outstanding liabilities and cover ongoing operating costs.

NOTE 16 - MANAGEMENT PLAN

The amount owed to Guidestone at June 30, 2017 is for unpaid operating expenses and outstanding advances. 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.

NOTE 17 – SUBSEQUENT EVENT

In September 2017 Stepstone Academy and the Cleveland Alliance of Charter Teachers and Staff (Cleveland ACTS), Ohio Federation of Teachers (OFT), American Federation of Teachers (AFT) and the AFL-CIO entered into a Collective Bargaining Agreement. The terms of this agreement are in effect from the date of ratification until June 30, 2020.

Effective October 10, 2017, the Ohio Council of Community Schools officially took over as Sponsor formerly sponsored by University of Toledo.

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

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

	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.00889490%	0.00562360%	0.00573200%	0.00573200%
School's Proportionate Share of the Net Pension Liability	$ 651,025	$ 320,888	$ 290,093	$ 340,864
School's Covered Payroll	$ 369,621	$ 169,302	$ 166,566	$ 54,964
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	176.13%	189.54%	174.16%	620.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

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

	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.01209857%	0.01103313%	0.00787955%	0.00787955%
School's Proportionate Share of the Net Pension Liability	$ 4,049,756	$ 3,049,234	$ 1,916,579	$ 2,283,017
School's Covered Payroll	$ 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	327.16%	264.89%	221.06%	363.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

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

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 33,385	$ 51,747	$ 22,314	$ 23,086	$ 7,607
Contributions in Relation to the Contractually Required Contribution	(33,385)	(51,747)	(22,314)	(23,086)	(7,607)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 238,464	$ 369,621	$ 169,302	$ 166,566	$ 54,964
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%

(1) Information prior to fiscal year 2013 is unavailable

STEPSTONE ACADEMY - CUYAHOGA COUNTY, OHIO

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

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 213,386	$ 173,297	$ 161,157	$ 112,710	$ 81,585
Contributions in Relation to the Contractually Required Contribution	(213,386)	(173,297)	(161,157)	(112,710)	(81,585)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 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%	13.00%	13.00%

(1) Information prior to fiscal year 2013 is unavailable

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR FISCAL YEAR ENDED JUNE 30, 2017

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

***Changes in assumptions**:* Amounts reported in 2017 reflect an adjustment of rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. See the notes to the basic financials for the methods and assumptions in this calculation.

The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.5%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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

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

Stepstone Academy
Cuyahoga County
2121 East 32nd Street
Cleveland, Ohio 44115

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of the Stepstone Academy, Cuyahoga County, (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 16, 2018, wherein we noted the School experienced financial difficulties during the year ended June 30, 2017.

Internal Control Over Financial Reporting

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

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

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

101 Central Plaza South, 700 Chase Tower, Canton, Ohio 44702-1509
Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001
www.ohioauditor.gov

Compliance and Other Matters

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

Purpose of this Report

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

Dave Yost
Auditor of State
Columbus, Ohio

March 16, 2018

WEST PARK 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
APRIL 10, 2018

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov