NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Nexus Academy of Cleveland
Cuyahoga County
4850 Pearl Road
Cleveland, Ohio 44114

To the Board of Directors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 13 to the financial statements, the Academy has suffered losses from operations. Note 13 describe Management's plans regarding this matter. The financial statements do not include any adjustments that might result from the outcome of this uncertainly. In addition, as Note 17 describes the Academy's name has changed to Cleveland Preparatory Academy. These matters do not affect our opinion on these financial statements.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2018 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

April 20, 2018

The discussion and analysis of the financial performance of the Nexus Academy of Cleveland, Cuyahoga County, Ohio (the Academy), provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total assets and deferred outflows of resources were $1,050,042.
- Total liabilities and deferred inflows of resources were $2,138,083.
- Total net position was ($1,088,041).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows are included on the Statement of Net Position. The Statement of Net Position represents the basic statement of position for the Academy. The Statement of Revenues, Expenses, and Change in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

REPORTING THE ACADEMY AS A WHOLE

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2017?" The Statement of Net Position and the Statement of Revenues, Expenses, and Change in Net Position answer this question. 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 considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and change in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

FINANCIAL ANALYSIS

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information derived from the Statement of Net Position and the Statement of Revenues, Expenses, and Change in Net Position.

Table 1 provides a summary of the Academy's net position for fiscal years 2017 and 2016.

Table 1
Net Position

	2017	2016
Assets		
Current assets	$ 292,264	$ 368,978
Non-current assets	2,746	5,898
Total assets	295,010	374,876
Deferred Outflows of Resources	755,032	625,309
Liabilities		
Current liabilities	285,010	365,313
Long Term Liabilities	1,845,701	1,396,543
Total Liabilities	2,130,711	1,761,856
Deferred Inflows of Resources	7,372	61,815
Net Position		
Net Investment in capital assets	2,746	5,898
Unrestricted	(1,090,787)	(829,384)
Total Net Position	$ (1,088,041)	$ (823,486)

Long-term liabilities increased $449,158, due primarily to the increase in the net pension liability.

Under the standards required by GASB 68, the net pension liability equals the Academy'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 Academy 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 Academy'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 Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2017 statements report pension expense of $339,722.

Table 2 shows the changes in Net Position for fiscal years 2017 and 2016:

Table 2
Change in Net Position

	2017	2016
Operating Revenues		
Foundation Payments - Regular	$ 1,108,989	$ 1,232,931
Foundation Payments - Special Education	142,160	187,923
Total Operating Revenues	1,251,149	1,420,854
Operating Expenses		
Purchased Services	2,353,475	2,604,181
Pension Expense	339,722	146,737
Depreciation Expense	3,152	3,093
Total Operating Expenses	2,696,349	2,754,011
Operating Loss	(1,445,200)	(1,333,157)
Non-Operating Revenues		
Federal Grants	170,369	195,334
Management Company Credits	1,001,705	1,068,000
Other Revenues	8,571	10,102
Total Non-Operating Revenues	1,180,645	1,273,436
Decrease in Net Position	(264,555)	(59,721)
Net Position, Beginning of Year	(823,486)	(763,765)
Net Position, End of Year	$ (1,088,041)	$ (823,486)

Net Position decreased by $264,555 in 2017 and by $59,721 in 2016. For fiscal years 2017 and 2016, operating revenues decreased $169,705 or 12 percent and decreased $10,134 or 1 percent, respectively, due to changes in Foundation payments caused primarily by enrollment. Additionally, the Academy operates as a one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds are not included in the discussion and analysis. Results of fiscal years 2017 and 2016 operations indicate ending net position of $(1,088,041) and $(823,486), respectively.

BUDGET

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391 of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

CAPITAL ASSETS AND DEBT ADMINISTRATION

There were no capital additions in the current fiscal year. Capital asset information is summarized in Note 4 to the basic financial statements. The Academy has no long-term debt outstanding. The Academy has other long-term obligations related to pension obligations. See Note 5 to the basic financial statements for more detail on the Academy's long-term obligations.

OTHER INFORMATION

Effective July 1, 2017, the Academy entered into a management agreement with Accel Schools Ohio LLC to operate the Academy (see Note 17). Additionally, the Academy changed its name to Cleveland Preparatory Academy on July 1, 2017 and moved its location to 4850 Pearl Road, Cleveland, Ohio 44114.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

The financial report is designated to provide our citizens, investors, and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have any questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 4850 Pearl Road, Cleveland Ohio 44114 or email at dave@massasolutionsllc.com.

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NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

Assets:		
Current Assets:		
Cash and Cash Equivalents	$	230,521
Federal Grants Receivable		52,838
Other Receivable		8,905
Total Current Assets		292,264
Non-Current Assets		
Capital Assets (Net of Accumulated Depreciation)		2,746
Total Assets		295,010
Deferred Outflows of Resources - Pension		755,032
Liabilities:		
Current Liabilities:		
Contracts Payable		164,247
Accrued Expenses		120,763
Total Current Liabilities		285,010
Long Term Liabilities:		
Net Pension Liability		1,845,701
Total Liabilities		2,130,711
Deferred Inflows of Resources - Pension		7,372
Net Position:		
Net Investment in Capital Assets		2,746
Unrestricted		(1,090,787)
Total Net Position	$	(1,088,041)

See the Accompanying Notes to the Basic Financial Statements.

NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

Operating Revenues:	
Foundation Payments - Regular	$ 1,108,989
Foundation Payments - Special Education	142,160
Total Operating Revenues	1,251,149
Operating Expenses:	
Purchased Services	2,353,475
Pension Expense	339,722
Depreciation Expense	3,152
Total Operating Expenses	2,696,349
Operating Loss	(1,445,200)
Non-Operating Revenues:	
Federal Grants	170,369
Management Company Credits	1,001,705
Other Revenue	8,571
Total Non-Operating Revenues	1,180,645
Decrease in Net Position	(264,555)
Net Position Beginning of Year	(823,486)
Net Position End of Year	$ (1,088,041)

See the Accompanying Notes to the Basic Financial Statements.

NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash Flows from Operating Activities:	
Cash Received for School Foundation Payments	$ 1,334,619
Cash Payments to Suppliers for Goods and Services	(1,564,986)
Net Cash Used for Operating Activities	(230,367)
Cash Flows from Noncapital Financing Activities:	
Federal Grants	237,427
Other Revenue	8,571
Net Cash Provided by Noncapital Financing Activities	245,998
Net Increase in Cash and Cash Equivalents	15,631
Cash and Cash Equivalents at Beginning of Year	214,890
Cash and Cash Equivalents at End of Year	$ 230,521

Reconciliation of Operating Income to Net Cash Used for Operating Activities:	
Operating Loss	(1,445,200)
Management Company Credits	1,001,705
Depreciation	3,152
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Changes in Assets, Liabilities and Deferred Outflows and Inflows of Resources :	
Other Receivables	11,738
Prepaid Items	13,549
Deferred Outflows of Resources	(129,723)
Contracts Payable	(90,040)
Accrued Expense	9,737
Deferred Inflows of Resources	(54,443)
Net Pension Liability	449,158
Total Adjustments	209,976
Net Cash Used by Operating Activities	$ (230,367)

See the Accompanying Notes to the Basic Financial Statements.

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NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Nexus Academy of Cleveland (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to provide top-quality personalized education for students and their families through internet or computer-based learning outside of the traditional classroom. The Academy will maintain a commitment to excellence in curriculum, instruction, accountability and communication for internet- or computer-based schools and will ensure that its programs follow the principles of parental involvement, individualized instruction and high-quality teaching.

The Academy was approved for operation under a contract with the University of Toledo, the Sponsor. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a five-member Board of Directors (the Board). The Board of Directors may not be fewer than five members.

Additionally, the Academy entered into a five-year contract on June 30, 2012, with Connections Academy of Ohio, LLC ("CA") for curriculum, school management services, instruction, technology and other services, with an expiration date of June 30, 2017. (See Note 10).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 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 Academy's accounting policies are described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation

Enterprise Accounting

The Academy'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.

The Academy uses enterprise accounting to track and report on its financial activities. The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net position, financial position, and cash flows.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Change in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

C. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391, the Academy prepares and adopts an annual budget which includes estimated revenues and expenses for the fiscal year and a five year forecast of revenues and expenses. The Academy will from time to time adopt budget revisions as necessary.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. Investments with an initial maturity of more than 3 months are reported as investments. During the fiscal year ended June 30, 2017, the Academy had no investments.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Foundation and Special Education payments are recognized as operating revenues in the accompanying financial statements. Federal grants and casino funds received in fiscal year 2017 were $170,369 and $8,571. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Management Company Credits Revenue

Management company credits revenue consists primarily of contributed products and services from Connections Academy of Ohio, LLC ("CA") as described in the contract between the Academy and CA (See Note 10).

G. Capital Assets

Capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. The Academy maintains a capitalization threshold of $1,000 dollars. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Furniture and Fixtures	7 years
Equipment	5 years
Computers	3 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy had Net Investment in Capital Assets of $2,746 in fiscal year 2017.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

K. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. The liabilities consisted of contracts payable and accrued expenses, total $285,010 at June 30, 2017.

L. Exchange and Non- Exchange Transactions

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the Academy 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 in which the resources are required to be used for the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expense requirements, in which the resources are provided to the Academy on a reimbursement basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statements 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 future periods and will not be recognized as an outflow of resources (expense) until then. For the Academy, 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 15.

In addition to liabilities, the statement 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 have become available. Deferred inflows of resources related to pension are presorted on the statement of net position in Note 15.

N. Pensions

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

O. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2017, the Academy 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 Academy.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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 Academy.

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 Academy.

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

NOTE 3 – DEPOSITS

Deposits with Financial Institutions

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 Investment Risk Disclosures."

The Academy 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, 2017, the carrying amount of the Academy's deposits was $230,521 and the bank balance was $234,105.

The Academy 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 Academy 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 risk.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017
Capital assets being depreciated:				
Furniture, fixtures, and equipment	$ 15,758	$ -	$ -	$ 15,758
Less accumulated depreciation:				
Furniture, fixtures, and equipment	(9,860)	(3,152)	-	(13,012)
Capital assets, net of accumulated depreciation	$ 5,898	$ (3,152)	$ -	$ 2,746

NOTE 5 – LONG-TERM OBLIGATIONS

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Net Pension Liability:				
STRS	$1,342,324	$ 390,202	$ -	$1,732,526
SERS	54,219	58,956	-	113,175
Total Net Pension Liability	1,396,543	449,158	-	1,845,701
Total Long Term Obligations	$1,396,543	$ 449,158	$ -	$1,845,701

NOTE 6 - OPERATING LEASES

The Academy rents facilities through lease agreement executed between their landlords and CA. The terms of these leases are due to expire September 30, 2017.

Future minimum lease payments for the operating leases are as follows:

Year Ending June 30,	Total
2018	38,244
Total	$ 38,244

NOTE 7 - RECEIVABLES

Receivables consisted the following as of June 30, 2017:

Federal Program Grant - Title I Improving Basic Program	$ 43,372
Federal Program Grant - IDEA	9,466
Due from CA	1,268
Casino	4,117
State Employees' Retirement	1,312
Sponsor	2,208
	$ 61,743

NOTE 8 – RISK MANAGEMENT

Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. For fiscal year 2017, the Academy contracted with CA to provide insurance in the following amounts through being included as an additional insured on their policy with Hanover Insurance Company for the following coverage:

> Commercial general liability: $2,000,000 general aggregate with a $1,000,000 single occurrence limit along with $10,000,000 in excess liability coverage for both aggregate and single occurrence.

There were no settlements in excess of insurance coverage over the past three fiscal years. There was no significant reduction in coverage from the prior year.

NOTE 9 –PAYMENTS TO SPONSOR AND FISCAL AGETN

The sponsorship agreement with University of Toledo requires the Academy shall have a designated fiscal officer who shall meet all the requirements as set forth by law including:

A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;

B. Comply with the policies and procedures regarding internal financial control of the Academy;

C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

The Academy shall pay to the Sponsor 3 percent of all base per pupil cost payments received from the state in consideration for the time, organization, oversight, fees and costs of the Sponsor in overseeing the Academy. The Academy's Fiscal Agent during the audit period was Massa Financial Solutions LLC. The total sponsorship fees paid totaled $35,286 for the fiscal year ending June 30, 2017.

NOTE 10 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES

The Academy entered into a five-year contract on June 30, 2012 with Connections Academy of Ohio, LLC ("CA"). In the agreement, which expires on June 30, 2017, CA agrees to provide curriculum, instruction, technology and other school management services. Under the contract, the following terms were agreed upon:

NOTE 10 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES (CONTINUED)

CA will provide direct materials/services or procurement and payment services for the following:

1. Instructional materials as approved by the Board and the Sponsor.
2. Various educational protocols and assessments.
3. Administrative personnel, including health and other benefits, as approved by the Board and the Sponsor where required.
4. Teaching staff, including health and other benefits, as approved by the Board.
5. Educational support services for participating families.
6. Training and other professional development as approved by the Board.
7. Hardware and software as approved by the Board.
8. Technical support for any hardware and software provided under the contract.
9. Maintenance of student records.
10. Services to special needs students as required by law.
11. Administrative services including expenses for a facility and capital, both of which require Board approval.
12. Financial, treasury and other reporting as required by law.
13. Student recruiting and community education.
14. General school management

For the services listed above, the Academy is required to reimburse certain actual expenses, pay a fee based on enrollment statistics and pay a school management fee to CA. The total expense on an accrual basis under this contract for fiscal years 2017 totaled $2,331,436. Of this amount, $164,247 represents a contract payable at June 30, 2017. Additionally, the Academy was issued service credits from CA totaling $1,001,705 at June 30, 2017.

NOTE 10 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES (CONTINUED)

For the periods ended June 30, 2017, CA, incurred the following expenses on behalf of the Academy:

		Regular Instruction	Special Instruction	Other Instruction	Support Services	Non-Instructional	Total
	Direct expenses:						
100	Salaries & wages	$ 376,849	$ 183,764	$ -	$ 117,564	$ -	$ 678,177
200	Employees' benefits	53,136	24,842	-	13,699	-	91,677
410	Professional & technical services	62	1,439	-	3,810	33,414	38,725
420	Property services	-	-	-	205,411	-	205,411
430	Travel	3,049	1,133	-	-	-	4,182
440	Communications	-	-	-	31,813	-	31,813
450	Utilities	-	-	-	22,879	-	22,879
460	Contracted craft or trade services	-	-	-	3,024	-	3,024
490	Other purchased services	4,010	5,723	1,857	11,389	-	22,979
510	Other supplies	3,989	4,301	-	7,582	-	15,872
DIR	Other direct costs	77,838	105,134	-	-	-	182,972
	Indirect expenses:						
OH	Overhead	208,675	106,802	-	65,070	235,599	616,146
	Total expenses	$ 727,608	$ 433,138	$ 1,857	$ 482,241	$ 269,013	$ 1,913,857

The Management Company incurs a variety of costs including general and administrative costs, marketing costs, software development costs, curriculum development costs, enrollment and placement costs, fulfillment and asset tracking costs, legal costs, and other costs associated with providing services to more than one school. These costs are not charged directly to the schools but are allocated internally by the Management Company pro rata based on the number of total students that have enrolled in each school.

NOTE 11 – CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, the Academy has complied with all grant requirements.

B. State Funding Adjustment

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 Academy for fiscal year 2017.

In September 2017, the ODE released the first adjustment of $73,592 for overpayment to the Academy in 2017. As a result, the Academy is repaying this balance to the ODE over the next 22 months, through June 2019. As of the date of this report, ODE adjustments for fiscal year 2017 are finalized. Final adjustments were 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 final adjustments were immaterial.

C. Litigation

The Academy is not involved in any litigation.

NOTE 12 – TAX EXEMPT STATUS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's nonprofit status. The Academy was approved on June 30, 2014 for tax exempt status under 501(c)3 of the Internal Revenue Code. The approval had a retroactive date of February 23, 2012.

NOTE 13 – MANAGEMENT PLAN

The Academy had an operating loss of $1,445,200 and a net position deficit of $1,088,041 at the end of fiscal year June 30, 2017. The Academy is projecting a negative net position balance for the fiscal year ending June 30, 2018, due to the recording of the net pension liability under GASB 68.

Connections Academy provided $1,001,705 worth of credits to the Academy for services provided during fiscal year 2017.

NOTE 14 – MANAGEMENT COMPANY

The Academy has contracted with CA to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately is responsible for remitting retirement contributions to the State Teachers Retirement System and the School Employees Retirement System.

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. 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.

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Net Pension Liability (Continued)

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

Ohio Revised Code limits the Academy's obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including pension.

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

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

B. Plan Description - School Employees Retirement System (SERS)

Plan Description – Academy non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. 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 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Plan Description - School Employees Retirement System (SERS) (Continued)

Age and service requirements for retirement are as follows:

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 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 Academy's contractually required contribution to SERS was $8,762 for fiscal year 2017.

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Plan Description - State Teachers Retirement System (STRS)

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

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

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Plan Description – State Teachers Retirement System (STRS) (Continued)

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit 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 Academy's contractually required contribution to STRS was $65,968 for fiscal year 2017.

D. 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 independent actuarial valuation as of that date. The Academy's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 1,732,526	$ 113,175	$ 1,845,701
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00517589%	0.00154630%	
Prior Measurement Date	0.00485697%	0.00095020%	
Change in Proportionate Share	0.00031892%	0.00059610%	
Pension Expense	$ 336,500	$ 3,222	$ 339,722

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. 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 Academy's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. 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 Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 70,002	$ 1,527	$ 71,529
Net Difference between Projected and Actual Earnings on Pension Plan Investments	143,846	9,333	153,179
Changes of Assumptions	0	7,555	7,555
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	447,603	436	448,039
Academy Contributions Subsequent to the Measurement Date	65,968	8,762	74,730
Total Deferred Outflows of Resources	$ 727,419	$ 27,613	$ 755,032
Deferred Inflows of Resources			
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	$ 0	$ 7,372	$ 7,372

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

$74,730 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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	$ 197,250	$ (2,283)	$ 194,967
2019	197,251	(1,777)	195,474
2020	190,856	12,857	203,713
2021	76,094	2,682	78,776
Total	$ 661,451	$ 11,479	$ 672,930

E. Actuarial Assumptions - SERS

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

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

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

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions – SERS (Continued)

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 investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

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

The long-term return expectation for the Pension Plan Investments has been determined 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:

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions – SERS (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	3.00
Total	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 investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Acdemy's Proportionate Share of the Net Pension Liability	$ 149,837	$ 113,175	$ 82,488

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions - STRS

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

Inflation	2.75 percent
Projected salary increases	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 paid on fifth anniversary of 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 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. 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 Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 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%)
Acdemy's Proportionate Share of the Net Pension Liability	$ 2,302,387	$ 1,732,526	$ 1,251,816

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 Academy's net pension liability is expected to be significant.

NOTE 16 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 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 Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2017, 2016, and 2015 were $0, $0 and $40, respectively. The full amount has been contributed for fiscal year 2015.

NOTE 16 - POSTEMPLOYMENT BENEFITS (CONTINUED)

B. School Teachers Retirement System

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

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

NOTE 17 – CHANGE IN MANAGEMENT

On February 1, 2017 Academy signed a management agreement with Accel Schools Ohio LLC, to operate the Academy beginning July 1, 2017 for a five-year period. As a result of this change in management, the Academy also changed its name effective July 1, 2017 to Cleveland Preparatory Academy and signed a new lease with Lumen Pearl Realty, LLC for a facility at 4850 Pearl Road, Cleveland Ohio 44114.

NOTE 18 – SUBSEQUENT EVENT

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

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NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

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

	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.00154630%	0.00095020%	0.00119500%	0.00119500%
Academy's Proportionate Share of the Net Pension Liability	$ 113,175	$ 54,219	$ 60,478	$ 134,859
Academy's Covered Payroll	$ 51,393	$ 28,604	$ 35,072	$ 22,536
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	220.22%	189.55%	172.44%	598.41%
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.

NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

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

	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.00517589%	0.00485697%	0.00340923%	0.00340923%
Academy's Proportionate Share of the Net Pension Liability	$ 1,732,526	$ 1,342,324	$ 829,243	$ 677,164
Academy's Covered Payroll	$ 577,714	$ 506,743	$ 375,123	$ 243,969
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	299.89%	264.89%	221.06%	277.56%
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.

NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

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

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 8,762	$ 7,195	$ 3,770	$ 4,861	$ 3,119
Contributions in Relation to the Contractually Required Contribution	(8,762)	(7,195)	(3,770)	(4,861)	(3,119)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Academy's Covered Payroll	$ 62,586	$ 51,393	$ 28,604	$ 35,072	$ 22,536
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

NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

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

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 65,968	$ 80,880	$ 70,944	$ 48,766	$ 31,716
Contributions in Relation to the Contractually Required Contribution	(65,968)	(80,880)	(70,944)	(48,766)	(31,716)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Academy's Covered Payroll	$ 471,200	$ 577,714	$ 506,743	$ 375,123	$ 243,969
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

NEXUS ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR FISCAL YEAR ENDEDS JUNE 30, 2017 AND 2016

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.

STATE TEACHERS RETIRMENT 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.

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

Nexus Academy of Cleveland
Cuyahoga County
4850 Pearl Road
Cleveland, Ohio 44114

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 Nexus Academy of Cleveland, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 20, 2018, wherein we noted the Academy experienced financial difficulties during the year ended June 30, 2017. In addition, the Academy's name has changed to Cleveland Preparatory Academy.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dave Yost
Auditor of State
Columbus, Ohio

April 20, 2018

Dave Yost • Auditor of State

CLEVELAND PREPARATORY 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
MAY 10, 2018

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