

Columbus Humanities, Arts &
Technology Academy
Franklin County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2015



Dave Yost • Auditor of State

Board of Directors
Columbus Humanities, Arts and Technology Academy
1333 Morse Road
Columbus, Ohio 43229

We have reviewed the *Independent Auditor's Report* of the Columbus Humanities, Arts and Technology Academy, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 2, 2016

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**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

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March 29, 2016

To the Board of Trustees
Columbus Humanities, Arts and Technology Academy
Franklin County, Ohio
1333 Morse Road
Columbus, Ohio 43229

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Columbus Humanities, Arts and Technology Academy, Franklin County, Ohio (the "Academy") as of and for the year ended June 30, 2015, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Columbus Humanities Arts and Technology Academy, Franklin County, Ohio as of June 30, 2015, and the changes in financial position and the cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3, the Academy restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68." Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 17 to the financial statements, the Academy has suffered recurring losses from operations and has a net position deficit of \$9,866,732 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability and related accruals totaling \$2,895,596. Note 17 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the Academy's Proportionate Share of the Net Pension Liability*, and *Schedule of the Academy's Contributions* on pages 4-9, 34-35, and 36-37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The *Schedule of Expenditures of Federal Awards*, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *Schedule of Expenditures of Federal Awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Expenditures of Federal Awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Rea & Associates, Inc.

Cambridge, Ohio

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015*

The discussion and analysis of the Columbus Humanities, Arts & Technology Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2015. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

Highlights

The Academy finished its eleventh year of operation during fiscal year 2015 serving grades kindergarten through eighth grade. Enrollment varied during the year but finished with 346 students.

Key highlights for fiscal year 2015 are as follows:

- Net Position decreased \$406,527 as compared to \$680,677 in the prior fiscal year.
- Enrollment decreased from 356 students in fiscal year 2014 to 346 students in fiscal year 2015.
- Total revenue increased from \$2,967,804 in fiscal year 2014 to \$3,540,121 in fiscal year 2015.
- Operating expenses (excluding interest) increased from \$3,141,741 in fiscal year 2014 to \$3,566,720 in fiscal year 2015.
- During 2015, the Academy implemented GASB 68, which reduced beginning net position by \$2,937,421.

Overview of the Financial Statements

The financial report consists of three parts-required supplemental information, the basic financial statements, and the notes to the basic financial statements. These statements are organized so the reader can understand the financial position of the academy. Enterprise accounting uses a flow of economic resource measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and all deferred inflows of resources are included on the statement of net position. The statement of net position represents the financial of position of the Academy. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g. expenses) in 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 the full understanding of the data provided in the basic financial statements.

Financial Analysis of the Academy as a Whole

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 the governmental-wide financial statements is included in the discussion and analysis.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)*

The following table provides a summary of Academy's net position for 2015 compared to 2014:

Table 1
Net Position

| | 2015 | Restated 2014 | Change |
|--------------------------------|----------------------|----------------------|--------------------|
| <u>Assets:</u> | | | |
| Current Assets | \$418,982 | \$395,241 | \$23,741 |
| Capital Assets | 66,004 | 86,000 | (19,996) |
| Total Assets | <u>484,986</u> | <u>481,241</u> | <u>3,745</u> |
| Deferred Outflows of Resources | <u>190,987</u> | <u>159,953</u> | <u>31,034</u> |
| <u>Liabilities:</u> | | | |
| Current Liabilities | 5,608,647 | 4,858,048 | 750,599 |
| Long-Term Liabilities | 1,847,475 | 2,145,977 | (298,502) |
| Net Pension Liability | 2,610,422 | 3,097,374 | (486,952) |
| | <u>10,066,544</u> | <u>10,101,399</u> | <u>452,097</u> |
| Deferred Inflows of Resources | <u>476,161</u> | <u>-</u> | <u>476,161</u> |
| <u>Net Position:</u> | | | |
| Invested in Capital Assets | 66,004 | 86,000 | (19,996) |
| Unrestricted | (9,932,736) | (9,546,205) | (386,531) |
| Total Net Position | <u>(\$9,866,732)</u> | <u>(\$9,460,205)</u> | <u>(\$406,527)</u> |

Total net position decreased \$406,527. The cause of the decrease was the Board's recognition of the need to continue to offer academic programming that would accelerate learning of underperforming students faster than the traditional single grade level gains, along with a current year decrease of students, however offset by increase in economically disadvantaged foundation. During 2007, the Academy relocated from the temporary modular site to the current permanent site. With that relocation the Academy was able to obtain a facility that is better designed for educating children and had significantly higher capacity, albeit at a higher annual occupancy cost. Until enrollment grows closer to capacity, the Academy will have difficulty with breaking even. The goal of the facility decision was to enhance the learning environment and provide capacity to grow enrollment into the future. Once the growth occurs, the Academy would begin to generate surpluses on an annual basis sufficient to eliminate accumulated deficits. Based on the analysis that was done at the time the decision was made to open the Academy, the Board and its management have made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable in the long-run and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary program became available by delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and personnel services.

During 2015, the Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)*

clearer understanding of the Academy'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.

Under the new 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. This implementation also had the effect of restating net position at June 30, 2014, from (\$6,522,784) to (\$9,460,205).

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)*

The following table reflects the changes in net position for fiscal year 2015 as compared to 2014:

Table 2
Change in Net Position

| | 2015 | 2014 | Change |
|--|--------------------|--------------------|------------------|
| <u>Operating Revenues:</u> | | | |
| State Aid | \$2,784,245 | \$2,434,402 | \$349,843 |
| Charges for Services and Miscellaneous | 16,033 | 16,870 | (837) |
| <u>Non-Operating Revenues:</u> | | | |
| Federal/State Restricted Grants | 739,843 | 516,532 | 223,311 |
| Total Revenues | <u>\$3,540,121</u> | <u>\$2,967,804</u> | <u>\$572,317</u> |
| <u>Operating Expenses:</u> | | | |
| Purchased Services | 3,343,621 | 3,018,586 | 325,035 |
| Depreciation | 20,471 | 20,471 | 0 |
| General Supplies | 161,325 | 66,161 | 95,164 |
| Other Operating Expense | 41,303 | 36,523 | 4,780 |
| <u>Non-Operating Expenses:</u> | | | |
| Interest | 379,928 | 506,740 | (126,812) |
| Total Expenses | <u>\$3,946,648</u> | <u>\$3,648,481</u> | <u>\$298,167</u> |
| Change in Net Position | <u>(\$406,527)</u> | <u>(\$680,677)</u> | <u>\$274,150</u> |

Average enrollment in fiscal year 2015 decreased from fiscal year 2014 by approximately 10 students, however state aid and related purchased services increased based on increase in the economically disadvantaged type of state aid received. It is Management's goal to increase enrollment to be closer to the facility's capacity of approximately 750 students (see Note 17) at which point the Academy would generate surpluses on an annual basis sufficient to eliminate accumulated deficits.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 operating expenses still include pension expense of \$159,953 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. 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.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)*

Under GASB 68, the 2015 statements report pension expense of \$124,364. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

| | | |
|---|--------|---------------|
| Total 2015 operating expenses under GASB 68 | \$ | 3,566,720 |
| Pension expense under GASB 68 | | (124,364) |
| 2015 contractually required contribution | | 166,189 |
| Adjusted 2015 operating expenses | | 3,608,545 |
| Total 2014 operating expenses under GASB 27 | | 3,141,741 |
| Increase in operating expenses not related to pension | \$ | 466,804 |

Budgeting

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the Academy had \$66,004 invested in capital assets (net of accumulated depreciation) for its leasehold improvements, computer software, construction in progress, and other equipment, a decrease of \$19,996. The following table shows fiscal year 2015 compared to 2014:

Capital Assets at June 30 (Net of Depreciation)

| | 2015 | 2014 | Change |
|--------------------------|----------|----------|------------|
| Leasehold Improvements | \$4,211 | \$4,814 | (\$603) |
| Furniture & Equipment | 6,045 | 8,059 | (2,014) |
| Computers and Software | 30,747 | 73,127 | (42,380) |
| Construction in Progress | 25,000 | 0 | 25,000 |
| | \$66,004 | \$86,000 | (\$19,996) |

The decrease in net capital assets represents \$25,000 of Construction in Progress for a Building, offset by the depreciation expense for the year. For further information regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

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*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)*

Debt

At June 30, 2015, the Academy had \$2,341,626 in short-term and long-term notes outstanding. The following outstanding table summarized the Academy's debt outstanding as of June 30, 2015:

| | Outstanding Debt, at Year End | | |
|---------------------------|-------------------------------|--------------------|--------------------|
| | <u>2015</u> | <u>2014</u> | <u>Change</u> |
| Advances Payable | \$ 344,900 | \$ 371,400 | \$ (26,500) |
| Installment Notes Payable | 1,996,726 | 2,145,977 | (149,251) |
| Total | <u>\$2,341,626</u> | <u>\$2,517,377</u> | <u>(\$175,751)</u> |

For further information regarding the Academy's debt, refer to Note 13 and 14 to the basic financial statements.

Economic Factors

The Academy is experiencing financial difficulty; see Note 17 to the basic financial statements for further information.

Operations

Columbus Humanities Arts & Technology Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any question concerning this report, please contact the administrative offices of Columbus Humanities, Arts & Technology Academy, 1333 Morse Road, Columbus, Ohio 43229.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**STATEMENT OF NET POSITION
JUNE 30, 2015**

Assets:

Current assets:

| | |
|------------------------------|----------------|
| Cash and Cash Equivalents | \$ 287,712 |
| Intergovernmental Receivable | 131,270 |
| Total current assets | 418,982 |

Noncurrent assets:

| | |
|---|----------------|
| Capital Assets, net of Accumulated Depreciation | 66,004 |
| Total assets | 484,986 |

| | |
|---------------------------------------|----------------|
| Deferred Outflows of Resources | 190,987 |
|---------------------------------------|----------------|

Liabilities:

Current liabilities:

| | |
|-----------------------------------|------------------|
| Accounts Payable, Trade | 206,061 |
| Accounts Payable, Related Party | 4,908,435 |
| Advances Payable | 344,900 |
| Current Portion of Long-term Debt | 149,251 |
| Total current liabilities | 5,608,647 |

Long Term Liabilities:

| | |
|--------------------------------------|-----------|
| Noncurrent Portion of Long-term Debt | 1,847,475 |
| Net Pension Liability (See Note 9) | 2,610,422 |

| | |
|--------------------------|-------------------|
| Total liabilities | 10,066,544 |
|--------------------------|-------------------|

| | |
|--------------------------------------|----------------|
| Deferred Inflows of Resources | 476,161 |
|--------------------------------------|----------------|

Net Position

| | |
|----------------------------|-----------------------|
| Invested in Capital Assets | 66,004 |
| Unrestricted | (9,932,736) |
| Total Net Position | \$ (9,866,732) |

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

| | |
|---|------------------------------|
| Operating Revenues: | |
| State Aid | \$ 2,784,245 |
| Charge for Services | 12,434 |
| Miscellaneous | 3,599 |
| Total Operating Revenues | <u>2,800,278</u> |
| Operating Expenses: | |
| Purchased Services | 3,343,621 |
| Depreciation | 20,471 |
| General Supplies | 161,325 |
| Other Operating Expenses | 41,303 |
| Total Operating Expenses | <u>3,566,720</u> |
| Operating Loss | <u>(766,442)</u> |
| Nonoperating Revenues and (Expenses): | |
| Federal and State Restricted Grants | 739,843 |
| Interest Expense | (379,928) |
| Net Nonoperating Revenues and (Expenses) | <u>359,915</u> |
| Change in Net Position | (406,527) |
| Net Position, Beginning of Year, Restated - See Note 3 | <u>(9,460,205)</u> |
| Net Position, End of Year | <u><u>\$ (9,866,732)</u></u> |

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|--------------|
| State Aid Receipts | \$ 2,784,245 |
| Charge for Services | 12,434 |
| Other Operating Receipts | 3,599 |
| Cash Payments to Suppliers for Goods and Services | (2,950,572) |
| Net Cash Used by Operating Activities | (150,294) |

CASH FLOWS FROM INVESTMENT ACTIVITIES

| | |
|--|---------|
| Payment from loans to other Schools | 250,000 |
| Net Cash Provided by Investment Activities | 250,000 |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|-------------|
| Short-term Financing Payments | (1,140,100) |
| Short-term Loan Proceeds | 1,113,600 |
| Short-term Loan Interest Payments | (31,981) |
| Note Payable Interest Payments | (323,424) |
| Note Payable Principal Retirement | (149,251) |
| Federal and State Grant Receipts | 674,713 |
| Net Cash Provided by Noncapital Financing Activities | 143,557 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|----------|
| Purchase of Assets | (25,000) |
| Net Cash Used for Capital and Related Financing Activities | (25,000) |

| | |
|---|------------|
| Net Increase in Cash and Cash Equivalents | 218,263 |
| Cash and Cash Equivalents - Beginning of the Year | 69,449 |
| Cash and Cash Equivalents - Ending of the Year | \$ 287,712 |

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

| | |
|----------------|--------------|
| Operating Loss | \$ (766,442) |
|----------------|--------------|

Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

| | |
|--|---------------------|
| Depreciation | 20,471 |
| Changes in Assets, Liabilities, and Deferred Inflows and Outflows: | |
| Decrease in Prepaid Expense | 9,652 |
| (Increase) in Deferred Outflows | (31,034) |
| Decrease in Accounts Payable, Trade | (67,421) |
| Increase in Accounts Payable, Related Party | 695,271 |
| Increase in Deferred Inflows | 476,161 |
| Decrease in Net Pension Liability | (486,952) |
| Net Cash Used for Operating Activities | \$ (150,294) |

See Accompanying Notes to the Basic Financial Statements

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 1 - Description of the Academy

Columbus Humanities, Arts & Technology Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of four academic years commencing after July 1, 2004 and ending June 30, 2008. At the end of the original contract period, the Academy's contract with Ohio Council of Community Schools was renewed for a five year term ending June 30, 2013 and another five year term is set to expire on June 30, 2018. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

Ohio Revised Code Section 3314.02(E) states in part that the Academy operate under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operates or manages an academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provision regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

The Academy contracts with Mosaica Education, Inc, for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 15 for further information.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. 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.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets, deferred outflows of resource, liabilities, and deferred inflows of resources associated with the operation of the Academy are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in net position. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. 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. Revenue resulting from nonexchange transactions, in which Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period 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.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2015.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2015, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2015 consisted primarily of furniture and equipment, computers and software, leasehold improvements, and construction in progress. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$5,000. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

All capital assets, except land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Useful Lives</u> |
|-------------------------|-------------------------|
| Leasehold Improvements | Remaining life of lease |
| Furniture and Equipment | 5-20 years |
| Computers and Software | 5 years |

H. 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 either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. There was no enabling legislation at June 30, 2015. Invested in capital assets of \$66,004 represents capital assets, net of accumulated depreciation.

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. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the 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 9.

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

K. 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.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 2 - Summary of Significant Accounting Policies (Continued)

L. 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.

M. Economic Dependency

The Academy receives approximately 99% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

Note 3 - Change In Accounting Principle And Restatement Of Net Position

For fiscal year 2015, the Academy implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

| | |
|--|-----------------------------|
| Net position June 30, 2014 | (\$6,522,784) |
| Adjustments: | |
| Net Pension Liability | (3,097,374) |
| Deferred Outflow - Payments Subsequent to Measurement Date | <u>159,953</u> |
| Restated Net Position June 30, 2014 | <u><u>(\$9,460,205)</u></u> |

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

Note 4 - Deposits

At June 30, 2015, the book balance was \$287,712, and bank balance of the Academy's deposits was \$297,570. Based on the criteria described in GASB Statement No. 40 *Deposits and Investment Risk Disclosure*, \$250,000 was covered by Federal depository insurance while \$47,570 was exposed to custodial credit risk as discussed below for the fiscal year ended June 30, 2015.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. All bank deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral as permitted by the Ohio Revised Code, is held in single financial collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 5 – Receivables

At June 30, 2015, the Academy had intergovernmental receivables in the amount of \$131,270. The receivables are expected to be collected within one year.

| <u>Grant</u> | <u>Amount</u> |
|-------------------------------------|-------------------|
| Title I | \$ 43,224 |
| IDEA | 8,041 |
| Title IIA | 5,881 |
| Race to the Top | 15,202 |
| SERS Refund/Overpayment | 17,500 |
| State Foundation Adjustment | 41,422 |
| Total Intergovernmental Receivables | <u>\$ 131,270</u> |

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

| | <u>Balance June 30, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments</u> | <u>Balance June 30, 2015</u> |
|--------------------------------|----------------------------------|------------------|------------------|--------------------|----------------------------------|
| Non-depreciable Capital Assets | | | | | |
| Construction in Progress | \$ - | \$ 25,000 | \$ - | \$ - | \$ 25,000 |
| Depreciable Capital Assets: | | | | | |
| Leasehold Improvements | 8,424 | - | - | - | 8,424 |
| Computers and Software | 164,021 | - | - | (24,525) | 139,496 |
| Furniture and Equipment | 10,075 | - | - | - | 10,075 |
| Total Depreciable Assets | <u>182,520</u> | <u>-</u> | <u>-</u> | <u>(24,525)</u> | <u>157,995</u> |
| Less Accumulated Depreciation: | | | | | |
| Leasehold Improvements | (3,610) | (602) | - | - | (4,212) |
| Computers and Software | (90,893) | (17,854) | - | - | (108,747) |
| Furniture and Equipment | (2,016) | (2,015) | - | - | (4,031) |
| Total Accumulated Depreciation | <u>(96,520)</u> | <u>(20,471)</u> | <u>-</u> | <u>-</u> | <u>(116,990)</u> |
| Total Depreciable Assets, Net | <u>86,000</u> | <u>(20,471)</u> | <u>-</u> | <u>(24,525)</u> | <u>41,004</u> |
| Total Capital Assets, Net | <u>\$ 86,000</u> | <u>\$ 4,529</u> | <u>\$ -</u> | <u>\$ (24,525)</u> | <u>\$ 66,004</u> |

* - A non cash adjustment was made to remove assets during the year that should not have been included.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 7 - Risk Management

The Academy is exposed to various risks of loss related to: torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the Academy contracted with Pashley Insurance Agency for insurance coverage with the Hartford Casualty Insurance Company.

| | |
|---|--------------|
| General Liability: | |
| Each Occurrence | \$ 1,000,000 |
| Aggregate Limit | 2,000,000 |
| Products - Completed Operations Aggregate Limit | 2,000,000 |
| Medical Expense Limit - Any One Person/Occurrence | 15,000 |
| Damage to Rented Premises - Each Occurrence | 500,000 |
| Personal and Advertising Injury | 1,000,000 |
| Automobile Liability: | |
| Combined Single Limit | 1,000,000 |
| Buildings | 6,950,000 |
| Business Personal Property | 607,800 |
| Excess/Umbrella Liability: | |
| Each Occurrence | 5,000,000 |
| Aggregate Limit | 5,000,000 |

Settled claims have not exceeded this commercial coverage in any of the prior three years and there have been no significant reductions in insurance coverage from the prior year.

Note 8 – Purchased Services

For the fiscal year ended June 30, 2015, purchased service expenses were as follows:

| <u>Purchased Services</u> | <u>Amount</u> |
|---------------------------|---------------------------|
| Personnel Services | \$1,552,037 |
| Professional Services | 532,783 |
| Food Service | 221,569 |
| Building Services | 953,569 |
| Student Services | 27,517 |
| Sponsor Services | 53,870 |
| Other | 2,275 |
| Total | <u><u>\$3,343,621</u></u> |

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 9 - 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.

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.

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

Plan Description – The Academy'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.

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FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 9 - 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 year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$22,169 for fiscal year 2015.

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

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

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

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FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 9 - Defined Benefit Pension Plans (Continued)

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

With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. 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. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$144,020 for fiscal year 2015. There were no contributions to the DC and Combined Plans for fiscal year 2015.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 9 - Defined Benefit Pension Plans (Continued)

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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy'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:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------|-------------|--------------|
| Proportionate Share of the Net Pension Liability | \$298,545 | \$2,311,877 | \$2,610,422 |
| Proportion of the Net Pension Liability | 0.00589900% | 0.00950472% | |
| Pension Expense | \$17,557 | \$106,807 | \$124,364 |

At June 30, 2015, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-----------------|------------------|------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$2,541 | \$22,257 | \$24,798 |
| Academy contributions subsequent to the measurement date | <u>22,169</u> | <u>144,020</u> | <u>166,189</u> |
| Total Deferred Outflows of Resources | <u>\$24,710</u> | <u>\$166,277</u> | <u>\$190,987</u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | <u>\$48,455</u> | <u>\$427,706</u> | <u>\$476,161</u> |
| Total Deferred Inflows of Resources | <u>\$48,455</u> | <u>\$427,706</u> | <u>\$476,161</u> |

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 9 - Defined Benefit Pension Plans (Continued)

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

\$166,189 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal Year Ending June 30: | SERS | STRS | Total |
|-----------------------------|----------|-----------|-----------|
| 2016 | \$11,478 | \$101,362 | \$112,840 |
| 2017 | 11,478 | 101,362 | 112,840 |
| 2018 | 11,478 | 101,362 | 112,840 |
| 2019 | 11,480 | 101,363 | 112,843 |
| Total | \$45,914 | \$405,449 | \$451,363 |

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 9 - 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, 2014, are presented below:

| | |
|--|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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 a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

| Asset Class | Target | | Long-Term Expected | |
|------------------------|------------|---|---------------------|---|
| | Allocation | | Real Rate of Return | |
| Cash | 1.00 | % | 0.00 | % |
| US Stocks | 22.50 | | 5.00 | |
| Non-US Stocks | 22.50 | | 5.50 | |
| Fixed Income | 19.00 | | 1.50 | |
| Private Equity | 10.00 | | 10.00 | |
| Real Assets | 10.00 | | 5.00 | |
| Multi-Asset Strategies | 15.00 | | 7.50 | |
| Total | 100.00 | % | | |

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 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.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 9 - Defined Benefit Pension Plans (Continued)

E. Actuarial Assumptions – SERS (CONTINUED)

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 7.75 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 (6.75 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%) |
|---|--------------------------|---------------------------------------|--------------------------|
| Academy's proportionate share of the net pension liability | \$425,936 | \$298,545 | \$191,397 |

F. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--------------------------------------|--|
| Inflation | 2.75 percent |
| Projected salary increases | 2.75 percent at age 70 to 12.25 percent at age 20 |
| Investment Rate of Return | 7.75 percent, net of investment expenses |
| 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, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 9 - Defined Benefit Pension Plans (Continued)

F. Actuarial Assumptions – STRS (CONTINUED)

| 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 % | |

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

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%) |
|---|--------------------------|---------------------------------------|--------------------------|
| Academy's proportionate share of the net pension liability | \$3,309,703 | \$2,311,877 | \$1,468,051 |

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 10 - 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 2015, 0.82 percent of covered payroll was allocated to health care. 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 2015, this amount was \$20,450. 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, 2015, 2014 and 2013 were \$1,379, \$1,303 and \$1,820 respectively. For fiscal year 2015, 2014 and 2013, 100.00 percent has been contributed.

B. School Teachers Retirement Systems

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.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 10 - Postemployment Benefits (Continued)

B. School Teachers Retirement System (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 year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$0, \$9,711 and \$9,177 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

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, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2015.

B. Ohio Department of Education Enrollment Review

The Academy's Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, the traditional school districts must comply with the minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy; therefore, the financial statements impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the Academy.

Note 12 – Building Leases

The Academy has entered into a lease for the period from July 1, 2007 through June 30, 2022 with EFA Company, LLC a wholly owned subsidiary of Mosaica Education, Inc. for the use of the Academy's building as a school facility. Mosaica Education, Inc. is a related party, as disclosed in Note 14. Rents for 2015 totaled \$812,903. The lease is a triple net lease with base rent at \$67,742. There scheduled inflationary rent adjustments of 2% effective September 1 of each year. The lease also stipulates that renovation investments in the building by the owner will cause the base rent to increase as renovation costs are paid. During fiscal year 2015, the owner invested no additional renovation funds in the property.

Effective September 2012, the Ohio Legislature amended O.R.C. 5709.07 whereby public schoolhouses are exempt from property taxes. The exemption is effective for tax years after 2010. The Academy is in the process applying for exemption. As such, the property tax expense has substantially decreased in fiscal year 2015.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 12 – Building Leases (Continued)

The following is a schedule of the future minimum payments for base rent required under the lease as of June 30, 2015 (does not include additional building investments by the owner / landlord or facility costs pass-throughs):

| Fiscal Year Ending June 30 | Amount |
|-------------------------------|---------------------|
| 2016 | \$ 829,160 |
| 2017 | 845,743 |
| 2018 | 862,658 |
| 2019 | 879,910 |
| 2020 | 897,502 |
| 2021-2022 | 1,849,227 |
| Total minimum lease payments | <u>\$ 6,164,200</u> |

Note 13 – Short-term Debt

A summary of short-term obligations for the Academy at June 30, 2015, is as follows:

Charter School Capital - In June 2014, the Academy entered into an agreement with Charter School Capital to borrow against its future foundation payments. The additional amount borrowed was \$1,113,600 during 2015, and principal payments totaled \$1,140,100. The terms of the loan are amounts borrowed for a particular month's foundation payment are to be repaid over the course of the next three months following purchase. Total interest paid was \$31,981. The imputed interest rate is 18% per annum.

| | Principal Outstanding 6/30/2014 | Additions | Reductions | Principal Outstanding 6/30/2015 |
|------------------------|---------------------------------------|-------------|-------------|---------------------------------------|
| Charter School Capital | \$371,400 | \$1,113,600 | \$1,140,100 | \$344,900 |

Note 14 – Long-Term Obligations

The changes in the Academy's long-term obligations during fiscal year 2015 were as follows:

| | Balance 6/30/2014 | Additions | Reductions | Balance 6/30/2015 | Amount Due Within One Year |
|-----------------------------------|----------------------|-------------|---------------------|----------------------|----------------------------------|
| Net Pension Liability: | | | | | |
| STRS | \$ 2,746,476 | \$ - | \$ (434,599) | \$ 2,311,877 | \$ - |
| SERS | 350,898 | - | (52,353) | 298,545 | - |
| Total Net Pension Liability | 3,097,374 | - | (486,952) | 2,610,422 | - |
| Mosaica Education Promissory Note | 2,145,977 | - | (149,251) | 1,996,726 | 149,251 |
| Total Long-Term Obligations | <u>\$ 5,243,351</u> | <u>\$ -</u> | <u>\$ (636,203)</u> | <u>\$ 4,607,148</u> | <u>\$ 149,251</u> |

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 14 – Long-Term Obligations (Continued)

Mosaica Education, Inc. Promissory Note - On June 21, 2007 the Academy entered into a promissory note for outstanding payables that had accumulated. The promissory note has an interest rate of 9.0 percent and matured in fiscal year 2013. In July 2009, the Academy retired the balance of this note and issued a new note in the amount of \$2,204,603 at an interest rate of 7% to provide long term financing for outstanding payables that had accumulated. The quarterly scheduled payments increase over the term of the note ranging from \$15,000 to \$180,000 through maturity on September 15, 2020. Scheduled quarterly installments in fiscal 2015 totaled \$80,000 per quarter. Quarterly installments are first applied against unpaid interest and any remaining amount to principal. There is no prepayment penalty. The outstanding principal balance on this note at June 30, 2015 was \$1,996,726. Interest expense recognized in fiscal year 2015 was \$323,424 and principal totaled \$149,251. Principal payments are not due until quarter ending March 15, 2016.

The principal and interest requirements to retire the promissory note with Mosaica Education, Inc. outstanding at June 30, 2015, are as follows:

| Fiscal Year Ending June 30 | Principal | Interest |
|-------------------------------|--------------|------------|
| 2016 | \$ 149,251 | \$ 298,479 |
| 2017 | 341,622 | 138,378 |
| 2018 | 448,292 | 111,705 |
| 2019 | 562,634 | 77,366 |
| 2020 | 429,585 | 35,954 |
| 2021 | 65,342 | 1,143 |
| Total | \$ 1,996,726 | \$ 627,071 |

Note 15 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for variety of services including management of personnel and human resources, board relations, financial management, marketing, technology services, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement, budget preparation, accounts payable, and payroll preparation.

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for fiscal year 2015 was \$439,117.

Also, per the management agreement there are expenses that will be billed to the academy based on the actual cost incurred on behalf of the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc employees working at the Academy, and other costs related to providing educational and administration services. The total reimbursable expenses billed by Mosaica on behalf of the Academy during the fiscal year 2015 were \$2,898,872.

At June 30, 2015, the Academy had payables to Mosaica Education, Inc. in the amount of \$4,908,435.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 15 – Related Party Transactions/Management Company (Continued)

The following is a schedule of payables to Mosaica Education, Inc.

| | <u>Amount</u> |
|-----------------------------------|---------------------------|
| Payroll and Benefits | \$1,332,629 |
| Building Rent | 944,760 |
| Note / Interest / Finance Charges | 595,949 |
| Management Fee | 135,349 |
| Miscellaneous | <u>1,899,748</u> |
| Total June 30, 2015 | <u><u>\$4,908,435</u></u> |

Note 16 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools Council (the Sponsor). As part of this contract, which expires in June 30, 2018, the Sponsor is entitled to a maximum of 2% of foundation revenues. Total amount due and paid for fiscal year 2015 was \$53,870.

Note 17 – Management’s Plan

For fiscal year 2015, the Academy had a decrease in net position of \$406,527, and net position deficit of \$9,866,737. Projected revenues and expenses for fiscal year 2016 indicate these financial difficulties will not be alleviated. Final full-time equivalents student enrollment at June 30, 2015 and 2014 was 346 and 356 respectively. However, current full-time equivalent student enrollment as of March 2016 has decreased to 352 students. Capacity of the facility is approximately 750 students.

Management plans to continue efforts to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents. Higher enrollment will help reduce future deficits and operating losses.

Note 18-Subsequent Events

A. Receivership and Sale of the Assets of the Academy’s Operator

On September 18, 2014 Tatonka Capital Corporation filed a complaint against the Academy's management company, Mosaica Education, in the United States District Court for the Northern District of Georgia: Civil Action No. 1:14-CV-03017. The complaint alleged breach of contract regarding approximately \$20 million of indebtedness to Tatonka Capital as evidenced by various promissory notes and assignments of notes and accounts receivable from the management company and its various academies. On October 21, 2014, the Court appointed a receiver to manage the day to day operations of Mosaica Education and to restructure its finances. On June 11, 2015, the case being resolved, the receivership was ended and all remaining assets of Mosaica Education were purchased by Accel Schools, a subsidiary of Pansophic Education, with the exception of several schools that were not purchased, and by default became assets of the Plaintiff, Tatonka Capital Corporation.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 18-Subsequent Events (Continued)

B. New Management Agreement

On July 1, 2015, the Academy entered into a management agreement with Accel Schools Ohio LLC for an initial term of three years, ending on June 30, 2018. In exchange for providing certain educational, administrative and fiscal services, the Academy agrees to pay Accel Schools 12.5% of its annual base state per-pupil allocation and a \$20,000 annual flat fee for managing the Academy's federal funds.

C. Debt Forgiveness and Restructuring

In consideration of the new agreement, the management company agreed to forgive or restructure the debt formerly owed to Mosaica and assumed by Accel Schools as part of its purchase of Mosaica's assets. \$2,032,012 in debt was forgiven and remainder, \$4,000,000 of certain related party accounts payable and long term obligations has been restructured as a note payable to Accel Schools, Inc. with a term of 30 years and an interest rate of 2.5%. No payments shall be made, and no interest shall accrue during fiscal year 2016. In subsequent years, payments will be required only when the Academy has achieved a ratio of gross revenues to expenses of at least 1.20 to 1.00 for a trailing twelve-month period.

D. Advances Payable

Subsequent to year end, the Academy has borrowed an additional \$379,600 in short-term loans against future foundation payments with Charter School Capital, to be repaid over a three month period from issuance. The imputed interest rate is 18% per annum.

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**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

| | 2014 | 2013 |
|---|-------------|-------------|
| Academy's Proportion of the Net Pension Liability | 0.00589900% | 0.00589900% |
| Academy's Proportionate Share of the Net Pension Liability | \$ 298,545 | \$ 350,898 |
| Academy's Covered-Employee Payroll | \$ 162,006 | \$ 232,832 |
| Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 184.28% | 150.71% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 71.70% | 65.52% |

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

(1) Information prior to 2013 is not available.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

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

| | 2014 | 2013 |
|---|--------------|--------------|
| Academy's Proportion of the Net Pension Liability | 0.00950472% | 0.00950472% |
| Academy's Proportionate Share of the Net Pension Liability | \$ 2,311,877 | \$ 2,746,476 |
| Academy's Covered-Employee Payroll | \$ 982,136 | \$ 852,193 |
| Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 235.39% | 322.28% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.70% | 69.30% |

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

(1) Information prior to 2013 is not available.

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
SCHOOL EMPLOYER'S RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|-------------|-------------|-------------|-------------|-------------|
| Contractually Required Contribution | \$ 22,169 | \$ 22,454 | \$ 32,224 | \$ 23,671 | \$ 17,912 |
| Contributions in Relation to the Contractually Required Contribution | \$ (22,169) | \$ (22,454) | \$ (32,224) | \$ (23,671) | \$ (17,912) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Academy's Covered-Employee Payroll | \$ 168,200 | \$ 162,006 | \$ 232,832 | \$ 175,993 | \$ 142,498 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.18% | 13.86% | 13.84% | 13.45% | 12.57% |

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|-------------|-------------|-------------|-------------|-------------|
| Contractually Required Contribution | \$ 30,567 | \$ 23,880 | \$ 21,016 | \$ 25,486 | \$ 28,422 |
| Contributions in Relation to the Contractually Required Contribution | \$ (30,567) | \$ (23,880) | \$ (21,016) | \$ (25,486) | \$ (28,422) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Academy's Covered-Employee Payroll | \$ 225,753 | \$ 242,683 | \$ 214,012 | \$ 259,532 | \$ 285,361 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.54% | 9.84% | 9.82% | 9.82% | 9.96% |

**COLUMBUS HUMANITIES, ARTS & TECHNOLOGY ACADEMY
FRANKLIN COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
STATE TEACHERS' RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|--------------|--------------|--------------|--------------|--------------|
| Contractually Required Contribution | \$ 144,020 | \$ 137,499 | \$ 119,307 | \$ 126,221 | \$ 151,016 |
| Contributions in Relation to the Contractually Required Contribution | \$ (144,020) | \$ (137,499) | \$ (119,307) | \$ (126,221) | \$ (151,016) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Academy's Covered-Employee Payroll | \$1,028,714 | \$ 982,136 | \$ 852,193 | \$ 901,579 | \$1,078,686 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.00% | 13.00% | 13.00% | 13.00% |

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|--------------|--------------|--------------|--------------|-------------|
| Contractually Required Contribution | \$ 132,416 | \$ 138,792 | \$ 135,098 | \$ 101,263 | \$ 93,082 |
| Contributions in Relation to the Contractually Required Contribution | \$ (132,416) | \$ (138,792) | \$ (135,098) | \$ (101,263) | \$ (93,082) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Academy's Covered-Employee Payroll | \$ 945,829 | \$ 991,371 | \$ 964,986 | \$ 723,307 | \$ 664,871 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

March 29, 2016

To the Board of Trustees
Columbus Humanities, Arts and Technology Academy
Franklin County, Ohio
1333 Morse Road
Columbus, Ohio 43229

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Columbus Humanities, Arts and Technology Academy, Franklin County, Ohio (the "Academy") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated March 29, 2016, in which we noted the Academy restated their net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68" and the Academy has suffered recurring losses from operations and has a net position deficiency of \$9,866,732, including effect of net pension liability and related accruals totaling \$2,895,596, that raises substantial doubt about its ability to continue as a going concern.

Internal Control Over Financial Reporting

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

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

Columbus Humanities, Arts and Technology Academy
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Cambridge, Ohio

March 29, 2016

To the Board of Trustees
Columbus Humanities, Arts and Technology Academy
Franklin County, Ohio
1333 Morse Road
Columbus, Ohio 43229

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance Required by OMB Circular A-133**

Report on Compliance for Each Major Federal Program

We have audited the Columbus Humanities, Arts and Technology Academy's, Franklin County, Ohio (the "Academy") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2015. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

Cambridge, Ohio

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

| Federal Grantor/ Pass-Through Grantor/ Program Title | CFDA # | Grant Year | Revenues | Expenses |
|---|--------|------------|-------------------|-------------------|
| U. S. Department of Education | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| Title I | 84.010 | 2015 | \$ 288,131 | \$ 288,131 |
| Special Education IDEA Part B | 84.027 | 2015 | 64,404 | 64,404 |
| Title III English Language Acquisition Grants | 84.365 | 2015 | 36,616 | 36,616 |
| Title II-A Improving Teacher Quality | 84.367 | 2015 | 5,881 | 5,881 |
| ARRA - Race to the Top | 84.395 | 2015 | 88,692 | 88,692 |
| <i>Total U.S. Department of Education</i> | | | <u>483,724</u> | <u>483,724</u> |
| U. S. Department of Agriculture | | | | |
| <i>Passed Through the Ohio Department of Education:</i> | | | | |
| <i>Child Nutrition Cluster:</i> | | | | |
| <i>Cash Assistance:</i> | | | | |
| School Breakfast Program | 10.553 | 2015 | 80,671 | 80,671 |
| National School Lunch Program | 10.555 | 2015 | 159,588 | 159,588 |
| <i>Total Child Nutrition Cluster</i> | | | <u>240,259</u> | <u>240,259</u> |
| <i>Total U.S. Department of Agriculture</i> | | | <u>240,259</u> | <u>240,259</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | <u>\$ 723,983</u> | <u>\$ 723,983</u> |

The accompanying notes are an integral part of this schedule.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the Academy's federal awards programs. This schedule has been prepared using the accrual basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. Food Distribution Program nonmonetary assistance is reported in the schedule of expenditures of federal awards at the entitlement value of the commodities received and disbursed. During the fiscal year ended June 30, 2015, the Academy received no food commodities inventory.

NOTE C - TRANSFERS

The Academy generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, an Academy can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the Academy a total of 27 months to spend the assistance. During fiscal year 2015, the ODE authorized the following transfers:

| CFDA Number / Grant Title | Grant Year | Transfer Out | Transfer In |
|---|------------|-------------------|-------------------|
| 84.010 Title I | 2014 | \$ 125,909 | |
| 84.010 Title I | 2015 | | \$ 125,909 |
| 84.367 Title II-A Improving Teacher Quality | 2014 | 3,785 | |
| 84.367 Title II-A Improving Teacher Quality | 2015 | | 3,785 |
| 84.027 Special Education IDEA Part B | 2014 | 1,650 | |
| 84.027 Special Education IDEA Part B | 2015 | | 1,650 |
| 84.395 ARRA - Race to the Top | 2014 | 86,638 | |
| 84.395 ARRA - Race to the Top | 2015 | | 86,638 |
| | | <u>\$ 217,982</u> | <u>\$ 217,982</u> |

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|----------------|---|---|
| (d) (1) (i) | Type of Financial Statement Opinion | Unmodified |
| (d) (1) (ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d) (1) (ii) | Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)? | No |
| (d) (1) (iii) | Were there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| (d) (1) (iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d) (1) (iv) | Were there any other significant deficiencies reported for major federal programs? | No |
| (d) (1) (v) | Type of Major Programs' Compliance Opinion | Unmodified |
| (d) (1) (vi) | Are there any reportable findings under Section .510? | No |
| (d) (1) (vii) | Major Programs (list): Title I | CFDA# 84.010 |
| (d) (1) (viii) | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: All others |
| (d) (1) (ix) | Low Risk Auditee? | Yes |

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None were noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted.

**COLUMBUS HUMANITIES, ARTS AND TECHNOLOGY ACADEMY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2015**

| Finding Number | Finding Summary | Fully Corrected? | Noted Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain |
|-----------------------|--|-------------------------|---|
| 2014-001 | ORC 149.41 - Not following Record Retention policy | Yes | Corrected |
| 2014-002 | Timeliness of Bank Reconciliations | Yes | Corrected |
| 2014-003 | Loans to Affiliate Academy without a formal agreement describing the terms of the loan | Yes | Corrected |

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Dave Yost • Auditor of State

COLUMBUS HUMANITIES ARTS AND TECH ACADEMY FRANKLIN 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
JUNE 16, 2016