

***UNITED PREPARATORY ACADEMY***

***FRANKLIN COUNTY***

**Audit Report**

**For the Year Ended June 30, 2016**







# Dave Yost • Auditor of State

Board of Education  
United Preparatory Academy  
1469 East Main Street  
Columbus, Ohio 43223

We have reviewed the *Independent Auditors' Report* of the United Preparatory Academy, Franklin County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 United Preparatory 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

March 14, 2017

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**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY  
AUDIT REPORT  
For the Year Ending June 30, 2016**

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Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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## **INDEPENDENT AUDITOR'S REPORT**

United Preparatory Academy  
Franklin County  
1469 East Main Street  
Columbus, Ohio 43223

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the United Preparatory Academy, Franklin County, Ohio (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United Preparatory Academy, Franklin County, Ohio, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.


**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



**Charles E. Harris & Associates, Inc.**

December 30, 2016



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**UNITED PREPARATORY ACADEMY**  
**FRANKLIN COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

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As management of United Preparatory Academy (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

### **Financial Highlights**

Key financial highlights for the School are as follows:

- Ending net position of the School was \$630,463, a decrease of \$300,250 in comparison with the amount from the prior fiscal year-end.
- During the fiscal year, total assets increased \$193,837 and total liabilities increased \$1.6 million.

### **Using this Annual Financial Report**

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

#### *Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position*

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during the fiscal year?" The statement of net position includes all assets and deferred outflows of resources and all liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net position; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The statement of revenues, expenses and changes in net position reports the changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

**UNITED PREPARATORY ACADEMY**  
**FRANKLIN COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

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**Financial Analysis**

Table 1 provides a summary of the School's net position at June 30, 2016.

**Table 1**  
**Net Position at Year End**

	<u>2016</u>	<u>2015</u>
Assets:		
Current and Other Assets	\$ 279,268	\$ 384,471
Capital Assets, Net	817,498	518,458
Total Assets	<u>1,096,766</u>	<u>902,929</u>
Deferred Outflows of Resources	<u>1,216,204</u>	<u>70,311</u>
Liabilities:		
Current Liabilities	122,217	42,527
Noncurrent Liabilities	1,470,546	-
Total Liabilities	<u>1,592,763</u>	<u>42,527</u>
Deferred Inflows of Resources	<u>89,744</u>	<u>-</u>
Net Position:		
Net Investment in Capital Assets	682,280	518,458
Restricted	101,449	133,338
Unrestricted	(153,266)	278,917
Total Net Position	<u>\$ 630,463</u>	<u>\$ 930,713</u>

Capital Assets, Net and Net Investment in Capital Assets both increased significantly in comparison with prior fiscal year-end. These increases are the result of building renovations during the fiscal year.

Noncurrent Liabilities also increased significantly in comparison with the prior fiscal year-end. Fiscal year 2016 was the first year the School was required to report their Net Pension Liability, resulting in this increase.

**UNITED PREPARATORY ACADEMY**  
**FRANKLIN COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

**Financial Analysis**

Table 2 shows the change in net position for the fiscal year ended June 30, 2016.

**Table 2**  
**Changes in Net Position**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues:</b>		
Foundation Revenues	\$ 878,254	\$ 714,898
Other Unrestricted Grants in Aid	28,867	9,832
<b>Nonoperating Revenues:</b>		
Federal and State Grants	492,587	307,175
Other Restricted Grants in Aid	124,079	80,521
Contributions and Donations	37,232	600,200
Total Revenues	<u>1,561,019</u>	<u>1,712,626</u>
<b>Expenses:</b>		
Salaries and Wages	746,457	503,978
Fringe Benefits	390,592	40,460
Purchased Services	505,812	312,999
Materials and Supplies	164,702	38,147
Depreciation	31,678	10,216
Other	21,599	7,364
Interest	429	-
Total Expenses	<u>1,861,269</u>	<u>913,164</u>
Change in Net Position	(300,250)	799,462
Net Position, Beginning of Year	930,713	131,251
Net Position, End of the Year	<u>\$ 630,463</u>	<u>\$ 930,713</u>

Foundation Revenue, Grant Revenue and Total Expenses all increased significantly in comparison with the prior fiscal year. These increases are the result of an increase in enrollment from 106 students in fiscal year 2015 to 148 students in fiscal year 2016.

In addition, fiscal year 2016 was the first year the School was required to report their Net Pension Liability, contributing to the significant increase in Fringe Benefits expense.

**UNITED PREPARATORY ACADEMY**  
**FRANKLIN COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

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**Capital Assets**

At fiscal year-end, the School had \$817,498 invested in capital assets, an increase of \$299,040 in comparison with the prior fiscal year-end. This increase represents the amount in which current year capital acquisitions of \$330,718 exceeded current year depreciation of \$31,678. See Note 5 of the basic financial statements for additional details.

**Debt**

At fiscal year-end, the School had debt outstanding totaling \$135,218, compared with \$0 one year ago. This increase represents construction loan proceeds received during the fiscal year. See Note 15 of the basic financial statements for additional details.

**Current Financial Issues**

The School is dependent upon legislative and governmental support to fund ongoing operations. The School is expected to grow in both the number of students and support staff as it enters its second year of operation, which will impact the School's funding since the School receives a majority of its financial support from per student state foundation payments.

**Contacting the School**

This financial report is designed to provide a general overview of the finances of the United Preparatory Academy and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to Nicki Hagler, Treasurer of United Preparatory Academy, 671 West State Street, Columbus OH 43215.

**UNITED PREPARATORY ACDEMY  
FRANKLIN COUNTY, OHIO**

**STATEMENT OF NET POSITION  
AS OF JUNE 30, 2016**

**Assets:**

Current Assets	
Cash and Cash Equivalents	\$ 154,633
Intergovernmental Receivable	123,365
Prepaid Items	1,270
Total Current Assets	<u>279,268</u>
Noncurrent Assets	
Nondepreciable Capital Assets	65,009
Depreciable Capital Assets, Net	752,489
Total Noncurrent Assets	<u>817,498</u>
Total Assets	<u><u>1,096,766</u></u>

**Deferred Outflows of Resources:**

Pension	<u>1,216,204</u>
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**Liabilities:**

Current Liabilities	
Accounts Payable	12,567
Accrued Wages and Benefits Payable	47,720
Intergovernmental Payable	61,930
Total Current Liabilities	<u>122,217</u>
Long-Term Liabilities:	
Intergovernmental Payable	56,814
Notes Payable	135,218
Net Pension Liability	1,278,514
Total Long-Term Liabilities	<u>1,470,546</u>
Total Liabilities	<u><u>1,592,763</u></u>

**Deferred Inflows of Resources:**

Pension	89,744
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**Net Position:**

Net Investment in Capital Assets	682,280
Restricted	101,449
Unrestricted	(153,266)
Total Net Position	<u><u>\$ 630,463</u></u>

See accompanying notes to the basic financial statements.

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<b>Operating Revenues:</b>	
Foundation Revenues	\$ 878,254
Other Unrestricted Grants in Aid	28,867
Total Operating Revenues	<u>907,121</u>
 <b>Operating Expenses:</b>	
Salaries	746,457
Fringe Benefits	390,592
Purchased Services	505,812
Materials and Supplies	164,702
Depreciation	31,678
Other	21,599
Total Operating Expenses	<u>1,860,840</u>
 Operating Loss	 <u>(953,719)</u>
 <b>Non-Operating Revenues:</b>	
Federal and State Grants	492,587
Other Restricted Grants in Aid	124,079
Contributions and Donations	33,232
Other Non-Operating Revenue	4,000
Interest Expense	(429)
Total Non-Operating Revenues	<u>653,469</u>
 Change in Net Position	 (300,250)
 Net Position Beginning of Year	 <u>930,713</u>
Net Position End of Year	<u><u>\$ 630,463</u></u>

See accompanying notes to the basic financial statements.



**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities:	
Received from Foundation Payments	\$ 1,006,746
Received from Other Unrestricted Grants in Aid	28,867
Payments to Suppliers for Goods and Services	(674,629)
Payments to Employees for Services and Benefits	(865,807)
Payments to Other	(19,126)
<b>Net Cash Used for Operating Activities</b>	<u>(523,949)</u>
Cash Flows from Noncapital Financing Activities:	
Received from Federal and State Grants	509,528
Received from Other Restricted Grants in Aid	124,079
Received from Contributions and Donations	133,232
Other Non-Operating Receipts	4,000
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>770,839</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(339,718)
Received from Loan Proceeds	135,218
Interest Paid on Loan	(429)
<b>Net Cash Used for Capital and Related Financing Activities</b>	<u>(204,929)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	41,961
Cash and Cash Equivalents at Beginning of Year	112,672
Cash and Cash Equivalents at End of Year	<u>\$ 154,633</u>

See accompanying notes to the basic financial statements.

**UNITED PREPARATORY ACDEMY  
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Operating Loss	\$ (953,719)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	31,678
Changes in Assets and Liabilities:	
Accounts Receivable	21
Intergovernmental Receivable	27,876
Prepaid Items	2,326
Accounts Payable	(3,923)
Accrued Wages and Benefits Payable	34,782
Intergovernmental Payable	114,645
Net Pension Liability	222,365
<b>Net Cash Used for Operating Activities</b>	<b><u><u>\$ (523,949)</u></u></b>

See accompanying notes to the basic financial statements.

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

United Preparatory Academy (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through three. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

The Thomas B. Fordham Foundation is the School's sponsor. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School. See Note 12 for more information.

The School operates under the direction of a nine-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 1 non-certified and 17 certificated full time teaching personnel who provide services to 148 students.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

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

**B. Measurement Focus**

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

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Accounting**

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

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

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

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

**E. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

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

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Cash and Cash Equivalents**

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

**G. Prepaid Items**

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

**H. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pensions. These deferred outflows of resources related to pensions are explained in Note 7.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. For the School, deferred inflows of resources are reported on the statement of net position for pensions. This deferred inflow of resources related to pensions is explained in Note 7.

**I. Accrued Liabilities Payable**

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

Accounts Payable – payments due for services or goods that were rendered or received during fiscal year 2016.

Accrued Wages and Benefits Payable – salary and benefit payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2016 contract.

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

**J. Compensated Absences**

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

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K. Net Position**

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

**L. Operating Revenues and Expenses**

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

**M. Estimates**

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

**N. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net 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 system reports investments at fair value.

**NOTE 3 – DEPOSITS**

At June 30, 2016, the carrying amount of the School's deposits was \$154,633 and the bank balance was \$162,564. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, the School's bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2016, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full.

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 65,009	\$ -	\$ -	\$ 65,009
Depreciable Capital Assets				
Buildings and Improvement	\$ 451,871	\$ 296,985	\$ -	\$ 748,856
Furniture, Fixtures, and Equipment	11,794	33,733	-	45,527
Total Depreciable Capital Assets	<u>463,665</u>	<u>330,718</u>	<u>-</u>	<u>794,383</u>
Less Accumulated Depreciation:				
Buildings and Improvement	(9,037)	(24,015)	-	(33,052)
Furniture, Fixtures, and Equipment	(1,179)	(7,663)	-	(8,842)
Total Accumulated Depreciation	<u>(10,216)</u>	<u>(31,678)</u>	<u>-</u>	<u>(41,894)</u>
Depreciable Capital Assets, Net	<u>\$ 453,449</u>	<u>\$ 299,040</u>	<u>\$ -</u>	<u>\$ 752,489</u>

**NOTE 6 – RISK MANAGEMENT**

**A. Property and Liability Insurance**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School contracted with McGowan Governmental Underwriters Company for general liability, property insurance, educational errors and omissions insurance.

Coverages are as follows:

Building Contents (\$1,000 deductible)	\$ 100,000
Educational Errors and Omissions	1,000,000
Automobile Liability	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded commercial coverage in the past year.

**B. Worker's Compensation**

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

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

**NOTE 7 – DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The School reports a net pension liability on the statement of net position. The net pension liability represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

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

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.



**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**NOTE 7 – DEFINED BENEFIT PENSION PLANS (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 School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. There was no amount allocated to the Health Care Fund.

The School’s contractually required pension contribution to SERS was \$5,513 for fiscal year 2016. Of this amount, \$473 is reported as an intergovernmental payable.

***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](http://www.strsoh.org).

**UNITED PREPARATORY ACADEMY  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

**NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)**

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

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

**NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)**

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. 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, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was \$98,991 for fiscal year 2016. Of this amount, \$13,579 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of Net Pension Liability	\$56,861	\$1,221,653	\$1,278,514
Proportion of the Net Pension Liability	0.0009965%	0.00442034%	
Pension Expense	\$4,288	\$75,379	\$79,667

At June 30, 2016, the School reported deferred outflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$917	\$55,691	\$56,608
Differences due to change in proportionate share percentage between measurement dates	44,099	1,010,993	1,055,092
School contributions subsequent to the measurement date	<u>5,513</u>	<u>98,991</u>	<u>104,504</u>
Total Deferred Outflows of Resources	<u>\$50,529</u>	<u>\$1,165,675</u>	<u>\$1,216,204</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$1,885</u>	<u>\$87,859</u>	<u>\$89,744</u>
Total Deferred Inflows of Resources	<u>\$1,885</u>	<u>\$87,859</u>	<u>\$89,744</u>

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)**

\$104,504 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	\$13,405	\$232,921	\$246,326
2018	13,405	232,921	246,326
2019	13,401	232,920	246,321
2020	2,920	280,063	282,983
Total	\$43,131	\$978,825	\$1,021,956

***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.

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)**

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, 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:

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

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)**

**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.

**Sensitivity of the School’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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%)
School's proportionate share of the net pension liability	\$78,846	\$56,861	\$38,348

**Changes between Measurement Date and Report Date** In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School’s net pension liability is expected to be significant.

**Actuarial Assumptions - STRS**

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

Inflation	2.75 percent
Projected salary 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.

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)**

Actuarial assumptions used in the June 30, 2015, 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:

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, 2015. 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, 2015. 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, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School’s proportionate share of the net pension liability	\$1,696,968	\$1,221,653	\$819,703

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

**NOTE 8 – POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

Health Care Plan – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

School contributions assigned to health care for the year ended June 30, 2016 and 2015 were \$0 and \$246, respectively. The School has contributed 100 percent for each fiscal year.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports on SERS' Health Care plan is included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.



**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

**NOTE 8 – POSTEMPLOYMENT BENEFITS (continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - STRS administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law.

The School's contractually required health care contributions to STRS for fiscal years 2016 and 2015 were \$0.

**NOTE 9 – EMPLOYEE BENEFITS**

*Insurance Benefits*

The School has purchased insurance from Anthem Blue Cross Blue Shield and Humana to provide employee medical/surgical, dental, life, vision and short-term disability benefits.

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**NOTE 10 – PURCHASED SERVICES**

During the fiscal year ended June 30, 2016, other purchased service expenses for services rendered by various vendors were as follows:

Other Professional and Technical Services	\$ 323,307
Garbage Removal and Cleaning	2,083
Repairs and Maintenance Services	29,534
Travel and Meeting Expense	108
Utilities	21,623
Printing	17,401
Contracted Food Services	109,615
Other Transportation	2,141
Total	<u>\$ 505,812</u>

**NOTE 11 – OPERATING LEASES**

The School has entered into a lease agreement with ComDoc for the lease of two copiers with accessories. The term of the lease was 60 months and commenced on June 24, 2014, with required payments of \$585 per month. Lease payments during the fiscal year totaled \$7,223.

The School has entered into a lease agreement with ComDoc for the lease of a copier with accessories. The term of the lease was 60 months and commenced on February 8, 2016, with required payments of \$430 per month. Lease payments during the fiscal year totaled \$1,720.

**NOTE 12 – CONTRACTED FISCAL SERVICES**

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

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

The School made \$42,300 in payments for services during fiscal year 2016.

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**NOTE 13 - CONTINGENCIES**

**a. Grants**

The School 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 School. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2016, if applicable, cannot be determined at this time. However, in the opinion of management, and such disallowed claims will not have a material adverse effect on the overall financial position of the School at fiscal year-end.

**b. Full Time Equivalency Reviews**

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Starting in fiscal year 2015, schools must comply with 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, 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 fiscal year 2015 and fiscal year 2016 Foundation funding for the School; however, ODE preliminarily determined the School was overpaid by \$104,066. The School began repaying this amount in September 2016 and the amount will be repaid in full over 22 months.

**NOTE 15 – LONG TERM OBLIGATIONS**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Nationwide Loan	\$ -	\$ 135,218	\$ -	\$ 135,218	\$ -

In March 2016, the School opened a line of credit for \$150,000 with Nationwide Bank. During the year, the School received \$135,218. The loan carries an interest rate of 4.50 percent and matures February 26, 2026.

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

June 30	Principal	Interest	Total
2017	\$ -	\$ 6,085	\$ 6,085
2018	-	6,085	6,085
2019	-	6,085	6,085
2020	-	6,085	6,085
2021	-	6,085	6,085
2022-2026	135,218	4,057	139,275
Total	\$ 135,218	\$ 34,481	\$ 169,699

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

**NOTE 16 – CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2016, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 72 “*Fair Value Measurement and Application*” which enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptor valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2016, the School implemented GASB Statement No. 76 “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*” which improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2016, the School implemented GASB Statement No. 79 “*Certain External Investment Pools and Pool Participants*” which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of this statement did not have a significant effect on the financial statements of the School.

**REQUIRED SUPPLEMENTARY INFORMATION**

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FISCAL YEAR (1)

	<u>2015</u>
School's Proportion of the Net Pension Liability	0.0009965%
School's Proportionate Share of the Net Pension Liability	\$ 56,861
School's Covered-Employee Payroll	\$ 30,000
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%

(1) Information prior to 2015 is not available.

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FISCAL YEAR (1)

	<u>2015</u>
School's Proportion of the Net Pension Liability	0.00442034%
School's Proportionate Share of the Net Pension Liability	\$ 1,221,653
School's Covered-Employee Payroll	\$ 473,977
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	257.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%

(1) Information prior to 2015 is not available.

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

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

LAST TWO FISCAL YEARS (1)

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 5,513	\$ 3,954
Contributions in relation to the contractually required contribution	\$ 5,513	\$ 3,954
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 39,376	\$ 30,000
Contributions as a percentage of covered-employee payroll	14.00%	13.18%

(1) Fiscal year 2015 was the School's first year of operation.



**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

SCHEDULE OF SCHOOL CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST TWO FISCAL YEARS (1)

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 98,991	\$ 66,357
Contributions in relation to the contractually required contribution	\$ 98,991	\$ 66,357
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 707,081	\$ 473,977
Contributions as a percentage of covered-employee payroll	14.00%	14.00%

(1) Fiscal year 2015 was the School's first year of operation.

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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

United Preparatory Academy  
Franklin County  
1469 East Main Street  
Columbus, Ohio 43223

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the United Preparatory Academy, Franklin County, (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 30, 2016.

***Internal Control Over Financial Reporting***

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

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


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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



***Charles E. Harris & Associates, Inc.***  
December 30, 2016

**UNITED PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

The prior audit report, for the year ending June 30, 2015, reported no material citations or recommendations.



# Dave Yost • Auditor of State

UNITED PREPARATORY 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  
MARCH 28, 2017