



Rea & associates a *brighter* way

City PREP Academy Franklin County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2015



Dave Yost • Auditor of State

Board of Directors
City Prep Academy
2800 S. Hamilton Road
Columbus, Ohio 43235

We have reviewed the *Independent Auditor's Report* of the City Prep 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 City Prep 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 17, 2016

This page intentionally left blank.

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO**

TABLE OF CONTENTS

| <u>TITLE</u> | <u>PAGE</u> |
|---|--------------------|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements | 7 |
| Notes to the Basic Financial Statements | 11 |
| Required Supplementary Information: | |
| Schedule of School Contributions | 22 |
| 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 <i>Government Auditing Standards</i> | 23 |

This page intentionally left blank.

December 27, 2015

To the Board of Directors
City PREP Academy
Franklin County, Ohio
2800 S. Hamilton Road
Columbus, OH 43235

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the City PREP Academy, Franklin County, Ohio (the "School") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and *Schedule of School Contributions* on pages 3-6 and 22, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Dublin, Ohio

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

The discussion and analysis of City Prep Academy (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2015. 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.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued June 1999. Since this is the first year of operation for the school, comparative information is unavailable and will be presented next fiscal year.

Financial Highlights

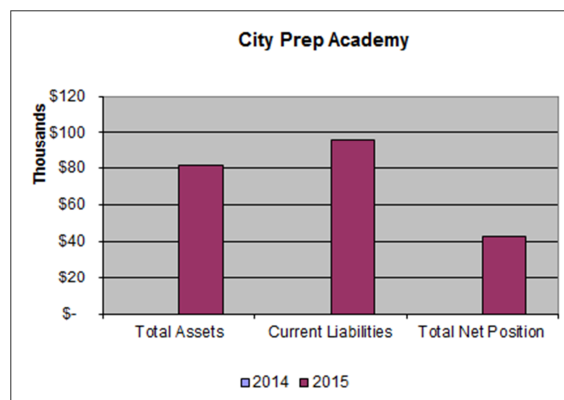
Key financial highlights for fiscal year 2015 are as follows:

- FY15 was the School's first year of operations.
- Total Net Position is \$42,949 in fiscal year 2015.
- State aid was \$581,270 in fiscal year 2015.
- Total expenses were \$593,339 in fiscal year 2015.
- Current liabilities were \$96,189 in fiscal year 2015.
- The School has no long term debt outstanding as of June 30, 2015.

Using this Financial Report

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

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position reflect how the School did financially during fiscal year 2015. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.



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

The School uses enterprise presentation for all of its activities.

**CITY PREP ACADEMY
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Tables within the Management's Discussion and Analysis are required to provide two years of information. 2015 was the first year of operation, thus two years of information will be provided in future years. Table 1 provides a summary of the School's Net Position for 2015.

(Table 1)
Statement of Net Position

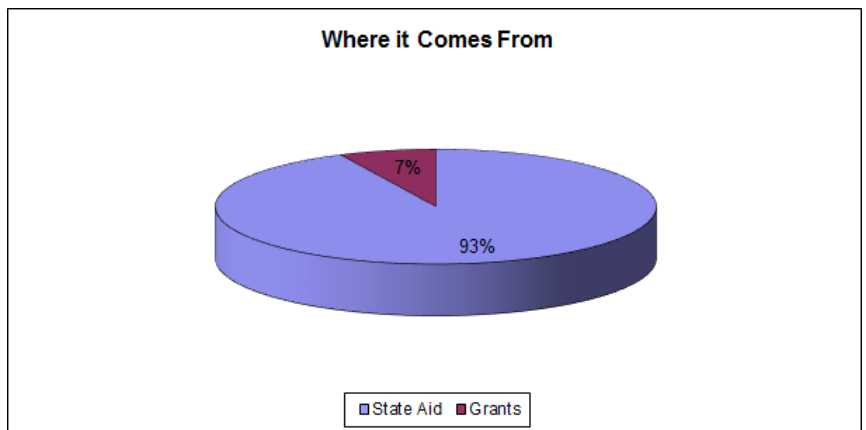
| | 2015 |
|--------------------------|-------------|
| Assets | |
| Current Assets | \$ 81,609 |
| Deferred Outflows | |
| Pension Requirements | \$ 57,529 |
| Liabilities | |
| Current Liabilities | \$ 96,189 |
| Net Position | |
| Unrestricted | \$ 42,949 |

Current assets were \$81,609 in 2015. This is due to the outstanding intergovernmental receivables from federal grants as of June 30, 2015.

Current liabilities were \$96,189 in 2015 as a result of payment of amounts owed to eSchool Consultants, LLC. related to the management agreement for state and federal grants receivable and for intergovernmental payables due the state.

Total Net Position was \$42,949 in 2015. This is due to revenues exceeding expenses for the school's first year.

Table 2 shows Changes in Net Position for the past fiscal year.



**CITY PREP ACADEMY
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

(Table 2)

| | 2015 |
|--------------------------------------|------------|
| <u>OPERATING REVENUES</u> | |
| State Aid | \$ 581,270 |
| Facilities Aid | 6,529 |
| <u>NON-OPERATING REVENUES</u> | |
| Grants | 48,319 |
| Interest Income | 170 |
| Total Revenues | 636,288 |
| <u>OPERATING EXPENSES</u> | |
| Purchased Services: Management Fees | 489,124 |
| Purchased Services: Grant Programs | 48,319 |
| Sponsor Fees | 17,349 |
| Board of Education | 6,029 |
| Auditing and Accounting | 22,451 |
| Advertising | 1,023 |
| Liability Insurance | 4,963 |
| Other Services | 4,081 |
| Total Expenses | 593,339 |
| Change in Net Position | \$ 42,949 |

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 91% of revenues for the School in fiscal year 2015. Full-time equivalent enrollment was 79 in fiscal year 2015.

Budgeting Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its Sponsor. The contract between the School and its Sponsor does prescribe a budgetary process. The School has developed a one year spending plan and a five-year projection that is reviewed periodically by the Board of Trustees.

Capital Assets

At the end of fiscal year 2015, the School had no capital assets. Per the management agreement, all capital assets are owned by eSchool Consultants, LLC.

Debt

At June 30, 2015, the School had no long term debt.

**CITY PREP ACADEMY
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Current Financial Related Activities

The School is in its first year with eSchool Consultants, LLC as its management company. Future fees to be paid to eSchool Consultants will be at 93% of state aid. The School's sponsor, Buckeye Community Hope Foundation, receives a fee of 3% of state aid. This will allow the Board to retain 4% of state aid to meet its obligations. The financial outlook over the next several years shows continued growth in enrollment.

Contacting Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Brian G. Adams, Fiscal Officer for the City Prep Academy, 65 E. Wilson Bridge Rd Suite 200, Worthington, OH 43085 or e-mail at badams@ocscltd.com.

**CITY PREP ACADEMY
FRANKLIN COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2015**

ASSETS

Current Assets

| | |
|------------------------------|---------------|
| Cash and Cash Equivalents | \$ 424 |
| Accounts Receivable | 41,623 |
| Intergovernmental Receivable | <u>39,562</u> |

| | |
|---------------------|---------------|
| Total Assets | <u>81,609</u> |
|---------------------|---------------|

DEFERRED OUTFLOWS OF RESOURCES

| | |
|----------------------|---------------|
| Pension Requirements | <u>57,529</u> |
|----------------------|---------------|

LIABILITIES

Current Liabilities

| | |
|---------------------------|---------------|
| Accounts Payable | 57,321 |
| Intergovernmental Payable | <u>38,868</u> |

| | |
|--------------------------|---------------|
| Total Liabilities | <u>96,189</u> |
|--------------------------|---------------|

Net Position

| | |
|--------------|---------------|
| Unrestricted | <u>42,949</u> |
|--------------|---------------|

| | |
|---------------------------|-------------------------|
| Total Net Position | <u><u>\$ 42,949</u></u> |
|---------------------------|-------------------------|

See accompanying notes to the basic financial statements

**CITY PREP ACADEMY
FRANKLIN COUNTY
STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | |
|---|----------------------|
| Operating Revenues | |
| State Aid | \$ 581,270 |
| Facilities Aid | <u>6,529</u> |
| Total Operating Revenues | <u>587,799</u> |
| Operating Expenses | |
| Purchased Services: Management Fees | 489,124 |
| Purchased Services: Grant Programs | 48,319 |
| Sponsor Fees | 17,349 |
| Board of Education | 6,029 |
| Auditing and Accounting | 22,451 |
| Insurance | 4,963 |
| Advertising | 1,023 |
| Other Services | <u>4,081</u> |
| Total Operating Expenses | <u>593,339</u> |
| Operating Loss | <u>(5,540)</u> |
| Non-Operating Revenues | |
| Grants | 48,319 |
| Interest Income | <u>170</u> |
| Total Non-Operating Revenues | <u>48,489</u> |
| Change in Net Position | <u>42,949</u> |
| Net Position Beginning of Year | - |
| Net Position End of Year | <u>\$ 42,949</u> |

See accompanying notes to the basic financial statements

**CITY PREP ACADEMY
FRANKLIN COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---------------------------------------|------------------|
| Cash Received from State | \$ 546,176 |
| Cash Payments for Goods and Services | <u>(554,679)</u> |
| Net Cash Used in Operating Activities | (8,503) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|-----------------|--------------|
| Grants Received | <u>8,757</u> |
|-----------------|--------------|

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|------------------------------------|------------|
| Cash Received from Interest Income | <u>170</u> |
|------------------------------------|------------|

| | |
|--|------------|
| NET INCREASE IN CASH AND CASH EQUIVALENTS | <u>424</u> |
|--|------------|

| | |
|--|----------|
| CASH AND CASH EQUIVALENTS BEGINNING OF YEAR | <u>-</u> |
|--|----------|

| | |
|--|----------------------|
| CASH AND CASH EQUIVALENTS END OF YEAR | <u><u>\$ 424</u></u> |
|--|----------------------|

RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

| | |
|----------------|------------|
| Operating Loss | \$ (5,540) |
|----------------|------------|

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

| | |
|---|---------------|
| Changes in Assets, Deferred Outflows and Liabilities: | |
| Accounts Receivable | (41,623) |
| Deferred Outflows | (57,529) |
| Accounts Payable | 57,321 |
| Intergovernmental Payable | <u>38,868</u> |

| | |
|---------------------------------------|--------------------------|
| Net Cash Used in Operating Activities | <u><u>\$ (8,503)</u></u> |
|---------------------------------------|--------------------------|

See accompanying notes to the basic financial statements

THIS PAGE INTENTIONALLY LEFT BLANK

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

City Prep Academy (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. 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 contracts with eSchool Consultants, LLC (ESCHOOL) for most functions. See Note 5.

The School operates under a self-appointing six-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by ESCHOOL. The facility is staffed with teaching personnel employed by ESCHOOL, who provide services to 79 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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.

The School uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its 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. Operating statements presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. 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. Revenues resulting from non-exchange transactions, in which the School received value without directly giving equal value in return, such as grants, entitlements, and donations are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

C. BUDGETARY PROCESS

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

D. CASH AND CASH EQUIVALENTS

All cash received by the School is maintained in a demand deposit account. The School did not have any investments during fiscal year 2015.

E. CAPITAL ASSETS AND DEPRECIATION

The School operates under a management agreement with ESCHOOL, and as such the School has no capital assets. (See Note 5)

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the Career Based Intervention (CBI) Program, which are reflected under "State Aid" as well as Facility aid, which is reflected under "Facilities Aid" on the Statement of Revenues, Expenses and Changes in Net Position. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements, include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2015 school year totaled \$636,118.

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. OPERATING REVENUES AND EXPENSES

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

H. NET POSITION

Net Position represents the difference between assets & deferred outflows or resources, and liabilities & deferred inflows of resources. Net Position are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes in which both restricted and unrestricted net positions are available.

I. USE OF ESTIMATES

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. 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 systems report investments at fair value.

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 6.

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 as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Since this is the first year of operations and the measurement date used in the implementation of those accounting standards is June 30, 2015, the School did not report any deferred inflows of resources in the current year.

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

3. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At June 30, 2015, the carrying amount of the School's deposits was \$424 and the bank balance was \$549. Of the bank balance, all was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure, \$0 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

4. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with ESCHOOL, ESCHOOL has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (See Note 5). Settled claims have not exceeded this coverage in the past, nor has there been any significant reduction in insurance coverage during the year.

Director and Officer - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and no deductible.

Worker's Compensation - ESCHOOL is responsible for paying the State Workers Compensation System a premium for employee injury coverage.

5. AGREEMENT WITH ESCHOOL

Effective July 1, 2014, the School entered into a one-year Management Agreement (Agreement) with ESCHOOL, which is an educational consulting and management company. The agreement automatically renews for successive one year terms unless either party exercises a non-renewal clause 60 days prior to June 30 of the following year. ESCHOOL is responsible and accountable to the Board for the administration, operation and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. The School had purchased service expenses for the year ended June 30, 2015 to ESCHOOL of \$537,443. Significant provisions of the Agreement are as follows:

Management, Consulting, and Operation Fee. The School is required to pay ESCHOOL a monthly continuing fee of 93% of the School's "qualified gross revenues", defined in the Agreement as, "...all educational revenues received from the federal, state, and/or local government...does not include student fees, contributions and PTA/PTO income and misc. revenue received...also does not include any state or federal funding that is meant to be a dollar for dollar reimbursement for expenditures made by the company" and "shall be paid 100% of all contributions and grants not specifically referenced above received by the Non Profit as a result of the company's efforts" The continuing fee is paid to ESCHOOL based on the previous month's qualified gross revenues.

Other School Financial Responsibilities. The School is responsible for its directors' and officers' insurance, legal fees for School Board representation and general corporate matters, accounting, audit, tax and consulting fees for the School, and other miscellaneous expenses not incurred in the normal day-to-day operation of the School.

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

5. AGREEMENT WITH ESCHOOL (continued)

ESCHOOL Financial Responsibilities Except as otherwise provided in the Agreement, all costs incurred in providing the educational program at the School are to be paid by ESCHOOL. Such costs include, but are not limited to, salaries and benefits for all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, building payments, maintenance, and capital improvements. All personal property used in the operation of the School is the property of ESCHOOL, unless purchased directly by the School with Federal funds.

ESCHOOL is required to maintain, at ESCHOOL's expense, commercial general liability insurance in the name of the School in an amount not less than \$1 million per occurrence and \$2 million in the aggregate, and excess umbrella liability insurance of not less than \$10 million per occurrence and \$15 million in the aggregate.

Personnel. ESCHOOL has the responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, transfer and terminate personnel, consistent with state and federal law and the Contract.

Compensation and benefits of all employees of the School is paid by ESCHOOL. If ESCHOOL fails to pay this compensation, the School, in its sole discretion, may pay such compensation and offset the amount by withholding an equal amount from the fees owed to ESCHOOL under the Agreement.

Termination by the School. The School may terminate the Agreement in the event ESCHOOL materially breaches the Agreement or the Contract and ESCHOOL does not cure the material breach within 30 days of its receipt of written notice from the School, unless the breach cannot be reasonably cured within 30 days, in which case the ESCHOOL shall promptly undertake and continue efforts to cure said material breach within a reasonable time.

Termination by ESCHOOL. ESCHOOL may, at its option, terminate the Agreement upon the occurrence of certain events as defined in the Agreement.

6. DEFINED BENEFIT PENSION PLANS

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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (continued)

| | 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, 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 School's contractually required contribution to SERS was \$20,335 for fiscal year 2015.

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.

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

6. 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.

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 School 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.

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (continued)

The School's contractually required contribution to STRS was \$37,194 for fiscal year 2015.

Deferred Outflows of Resources Related to Pensions

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

| Deferred Outflows of Resources | <u>STRS</u> | <u>SERS</u> | <u>Total</u> |
|---|------------------|------------------|------------------|
| School contributions subsequent to the measurement date | \$ 37,194 | \$ 20,335 | \$ 57,529 |
| Total Deferred Outflows of Resources | \$ 37,194 | \$ 20,335 | \$ 57,529 |

\$57,529 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 fiscal year ending June 30, 2016.

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description – On behalf of the School, eSchool 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.

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

7. POSTEMPLOYMENT BENEFITS (continued)

The School's contributions for health care (including surcharge) for the fiscal year ended June 30, 2015 were \$1,265. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal year ended June 30, 2015 were \$0.

This Space intentionally left blank.

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

8. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2015, eSchool Consultants, LLC and its affiliates incurred the following expenses on behalf of the School.

| Expense | <u>2015</u> |
|-----------------------------------|----------------------------|
| Direct Expenses: | |
| Salaries & Wages | \$ 543,699 |
| Employees' benefits | 63,915 |
| Professional & technical services | 14,978 |
| Property services | 109,211 |
| Travel | 7,541 |
| Communications | 30,808 |
| Utilities | 31,171 |
| Transportation | 404 |
| Books, periodicals & films | 28,270 |
| Food & related supplies | 58,648 |
| Other supplies | 102,781 |
| Other direct costs | 41,516 |
| Indirect Expenses: | |
| Overhead | <u>108,809</u> |
| Total Expenses | <u><u>\$ 1,141,751</u></u> |

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support, and marketing and communications.

9. CONTINGENCIES

A. GRANTS

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial Position of the School.

**CITY PREP ACADEMY
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

9. CONTINGENCIES (continued)

B. FULL TIME EQUIVALENCY

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts 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 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 school; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

10. FEDERAL TAX STATUS

On November 15, 2015, the School began the process of filing for tax exempt status under section 501(c)(3) of the Internal Revenue Code. In the interim, the School has begun the process to file IRS Form 990, "Return of Organization Exempt from Income Tax".

11. SPONSORSHIP FEES

The School contracts with Buckeye Community Hope Foundation (BCHF) to be its sponsor (beginning May 2014).

The contract states "...the annual sponsorship fee to be paid to Buckeye Community Hope Foundation be set at 3% of the State's annual School Foundation support..." The Sponsor is to provide oversight, monitoring, and technical assistance for the School. Amount paid to BCHF for fiscal year 2015 was \$17,349.

City Prep Academy
Franklin County, Ohio
Required Supplementary Information
Schedule of School Contributions
Last Fiscal Year (1)

| | 2015 |
|---|-------------|
| <i>State Teachers Retirement System (STRS)</i> | |
| Contractually Required Contribution | \$ 37,194 |
| Contributions in Relation to the Contractually Required Contribution | (37,194) |
| Contribution deficiency (excess) | \$ 0 |
| School's covered-employee payroll | \$ 265,671 |
| Contributions as a percentage of covered-employee payroll | 14.00% |
| <i>School Employees Retirement System (SERS)</i> | |
| Contractually required contribution | \$ 20,335 |
| Contributions in relation to the contractually required contribution | (20,335) |
| Contribution deficiency (excess) | \$ 0 |
| School's covered-employee payroll | \$ 154,287 |
| Contributions as a percentage of covered-employee payroll | 13.18% |

(1) Information prior to 2015 is not available.

December 27, 2015

To the Board of Directors
City PREP Academy
Franklin County, Ohio
2800 S. Hamilton Road
Columbus, OH 43232

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 City PREP Academy, Franklin County, Ohio (the School) as of and for the year ended June 30, 2015, 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 27, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Dublin, Ohio



Dave Yost • Auditor of State

CITY PREP 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 29, 2016**