Columbus Preparatory Academy
Franklin County, Ohio

Audited Financial Statements
For the Fiscal Year Ended June 30, 2017

Dave Yost • Auditor of State

Board of Directors
Columbus Preparatory Academy
3330 Chippewa Street
Columbus, Ohio 43204

We have reviewed the *Independent Auditor's Report* of the Columbus Preparatory Academy, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

February 22, 2018

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COLUMBUS PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO

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Rea & associates a brighter way

December 26, 2017

To the Board of Directors
Columbus Preparatory Academy
Franklin County, Ohio
3330 Chippewa Street
Columbus, Ohio 43204

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2017, 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.

Emphasis of a Matter

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 17 to the financial statements, the Academy has previously suffered recurring losses from operations and has a net position deficit of $10,281,548 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability and related accruals totaling $5,772,223. Note 17 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2017 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Cambridge, Ohio

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017 – UNAUDITED

The discussion and analysis of the Columbus Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2017. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

HIGHLIGHTS

The Academy finished its twelfth year of operation during fiscal year 2017 serving grades kindergarten through eighth grade. Enrollment varied during the year but finished with 696 full time equivalent students, a slight increase from fiscal year end 2017.

Key highlights for fiscal year 2017 are as follows:

- Net position decreased $282,300 as compared to a decrease of $72,396 in the prior fiscal year.
- Total revenue increased from $6,038,025 in fiscal year 2016 to $6,493,483 in fiscal year 2017.
- Total operating expenses (excluding interest expense) increased from $5,736,777 in fiscal year 2016 to $6,429,795 in fiscal year 2017.

OVERVIEW OF FINANCIAL STATEMENTS

The financial report consists of three parts: required supplemental information, the basic financial statements and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resource measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The statement of net position represents the statement of position of the Academy. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g. expenses) in net position. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Table 1 provides a summary of Academy's net position for 2017 compared to 2016:

Table 1
Net Position

	2017	2016
Assets:		
Current assets:		
Cash and Cash Equivalents	$60,815	$178,742
Accounts Receivable	52,639	157,112
Intergovernmental Receivable	55,899	14,499
Prepaid Expense	53,520	72,232
Total currents assets	222,873	422,585
Noncurrent assets:		
Capital Assets, net of Accumulated Depreciation	378,461	332,588
Total noncurrent assets	378,461	332,588
Total assets	601,334	755,173
Deferred Outflows of Resources	2,579,486	920,011
Liabilities:		
Current liabilities:		
Accounts Payable, Trade	107,929	123,551
Accounts Payable, Related Party	1,292,113	1,062,841
Accrued Expenses	67,607	202,499
Capital Leases Payable	-	5,584
Due to Other Schools Pass through	36,835	90,125
Current Portion of Long-Term Debt	352,354	313,720
Advances Payable	1,135,200	1,010,500
Total current liabilities	2,992,038	2,808,820
Noncurrent liabilities:		
Net Pension Liability	8,301,507	5,774,116
Noncurrent Portion of Long-term Debt	2,118,621	2,686,137
Total noncurrent liabilities	10,420,128	8,460,253
Total liabilities	13,412,166	11,269,073
Deferred Inflows of Resources	50,202	405,359
Net Position:		
Invested in Capital Assets	378,461	327,004
Unrestricted Net Position	(10,660,009)	10,326,252
Total Net Position	$ (10,281,548)	$ (9,999,248)

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Total net position decreased $282,300. Most of this decrease in net position is due to changes in the net pension liability calculated under GASB 68. The goal of the Board and management is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. Enrollment at the end of fiscal year 2017 was 696 students, an increase of 21 students from fiscal year end 2016. The capacity of the current facility is approximately 725 students. This includes a recent renovation of the second floor that expanded the enrollment capacity by approximately 50 students.

Based on continued analysis of enrollment data, the Board and its management are committed to following the plan to invest in the future of the children of this community, not based on a plan that is expected to generate economic profits, but rather on a plan that is economically sustainable over the long term and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs are being made available by delaying payment on invoices from the Academy's management company for certain rent, management services, operating expenses and personnel services.

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

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

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

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

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

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

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FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Table 2 reflects the changes in net position for fiscal year 2017 as compared to 2016:

Table 2
Change in Net Position

	2017	2016
Operating Revenues:		
State Aid	$ 5,108,156	$ 4,653,266
Charges for Services	90,590	93,434
Miscellaneous	3,151	5,292
Total Operating Revenues	5,201,897	4,751,992
Operating Expenses:		
Purchased Services	6,198,183	5,441,224
Depreciation	86,390	56,253
General Supplies	141,967	185,063
Other Operating Expense	3,255	54,237
Total Operating Expenses	6,429,795	5,736,777
Operating Loss	(1,227,898)	(984,785)
Non-Operating Revenues and Expenses:		
Federal and State Restricted Grants	626,777	579,239
Forgiveness of Debt	664,809	706,794
Interest Expense	(345,988)	(373,644)
Net Nonoperating Revenues and Expenses	945,598	912,389
Change in Net Position	(282,300)	(72,396)
Net Position Beginning of Year	(9,999,248)	(9,926,852)
Net Position End of Year	$ (10,281,548)	$ (9,999,248)

During the year, the management company and Tatonka forgave an additional $664,809 worth of accounts payable related party and notes payable due still.

BUDGETING

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

CAPITAL ASSETS

At the end of fiscal year 2017, the Academy had $378,461 invested in capital assets (net of accumulated depreciation) for computers, furniture and equipment, leasehold improvements, and construction in progress. The following table shows fiscal year 2017 compared to 2016:

Capital Assets at June 30 (Net of Depreciation)

	2017	2016	Change
Computers & Software	$47,498	$40,791	$6,707
Furniture & Equipment	74,086	44,424	29,662
Construction in Progress	-	39,474	(39,474)
Leasehold Improvements	256,877	207,898	48,979
Total Capital Assets - Net	$378,461	$332,587	$45,874

For further information regarding the Academy's capital assets, refer to Note 5 of the basic financial statements.

DEBT

At June 30, 2017, the Academy had $2,470,975 in long-term notes outstanding with Tatonka Capital, of which $352,354 is due within one year. Additionally, the Academy had advances from Charter School Capital outstanding at the end of the year in the amount of $1,135,200. For further information regarding the Academy's debt, refer to Notes 6 and 7 to the basic financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any question concerning this report, please contact the Academy's Fiscal Officer, C. David Massa, CPA of Massa Financial Solutions, LLC, 3330 Chippewa Street, Columbus, Ohio 43204

COLUMBUS PREPARATORY ACADEMY - FRANKLIN COUNTY, OHIO

Statement of Net Position
At June 30, 2017

Assets:		
Current Assets:		
Cash and Cash Equivalents	$	60,815
Accounts Receivable		52,639
Intergovernmental Receivable		55,899
Other Assets		53,520
Total Current Assets		222,873
Noncurrent Assets:		
Capital Assets, net of Accumulated Depreciation		378,461
		378,461
Total Assets		601,334
Deferred Outflows of Resources		2,579,486
Liabilities:		
Current Liabilities:		
Accounts Payable, Trade		107,929
Accounts Payable, Related Party		1,292,113
Accrued Expenses		67,607
Due to Other Schools		36,835
Current Portion of Long Term Debt		352,354
Advances Payable		1,135,200
Total Current Liabilities		2,992,038
Noncurrent Liabilities:		
Net Pension Liability		8,301,507
Noncurrent Portion of Long-term Debt		2,118,621
Total Noncurrent Liabilities		10,420,128
Total Liabilities		13,412,166
Deferred Inflows of Resources		50,202
Net Position:		
Invested in Capital Assets		378,461
Unrestricted Net Position		(10,660,009)
Total Net Position	$	(10,281,548)

See Accompanying Notes to the Basic Financial Statements

COLUMBUS PREPARATORY ACADEMY - FRANKLIN COUNTY, OHIO

Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2017

Operating Revenues:	
State Aid	$ 5,108,156
Charge for Services	90,590
Miscellaneous	3,151
Total Operating Revenues	5,201,897
Operating Expenses:	
Purchased Services	6,198,183
Depreciation	86,390
Supplies	141,967
Other Operating Expenses	3,255
Total Operating Expenses	6,429,795
Operating Loss	(1,227,898)
Non-Operating Revenues and (Expenses):	
Federal and State Restricted Grants	626,777
Debt Forgiveness	664,809
Interest Expense	(345,988)
Net Non-operating Revenues and (Expenses)	945,598
Change in Net Position	(282,300)
Net Position Beginning of Year	(9,999,248)
Net Position End of Year	$ (10,281,548)

See Accompanying Notes to the Basic Financial Statements

COLUMBUS PREPARATORY ACADEMY - FRANKLIN COUNTY, OHIO

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
State Aid Receipts	$ 4,986,338
Other Operating Receipts	93,740
Cash Payments to Suppliers for Goods and Services	(5,095,363)
Net Cash Used For Operating Activities	(15,285)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Charter School Capital Advances	3,055,200
Charter School Capital Redemptions	(2,930,500)
Charter School Capital Cost of Funding	(159,087)
Note Payable Principal Payments	(328,882)
Note Payable Interest Payments	(186,901)
Capital Lease Principal Payments	(5,584)
Federal and State Grant Receipts	585,377
Net Cash Provided By Noncapital Financing Activities	29,622
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Assets	(132,264)
Net Cash Used For Capital and Related Financing Activities	(132,264)
Net Decrease in Cash and Cash Equivalents	(117,927)
Cash and Cash Equivalents - Beginning of the Year	178,742
Cash and Cash Equivalents - Ending of the Year	$ 60,815

See Accompanying Notes to the Basic Financial Statements

(Continued)

COLUMBUS PREPARATORY ACADEMY - FRANKLIN COUNTY, OHIO

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017
(Continued)

Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating Loss	$ (1,227,898)
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities	
Depreciation	86,390
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:	
Decrease in Receivables	104,473
(Increase)/ Decrease in Deferred Outflows	(1,659,475)
Increase/ (Decrease) in Deferred Inflows	(355,157)
Increase/ (Decrease) in Net Pension Liability	2,527,391
Decrease in Prepaid Expense/ Other Assets	18,712
Increase in Accounts Payable, Trade	(15,620)
Increase in Accounts Payable, Related Party	694,081
Increase/(Decrease) in Accrued Expenses	(134,892)
Increase/(Decrease) in Due to Other Schools	(53,290)
Net Cash Used For Operating Activities	$ (15,285)

Non-Cash Transactions: During the fiscal year ended June 30, 2017, the Academy received total debt forgiveness in the amount of $464,809 from Accel Schools for amounts included in Accounts Payable, Related Party. This forgiveness was applied against open obligations of the School that were owed to Accel Schools. The Academy also received $200,000 in debt forgiveness in the form of loan discounts from Tatonka Capital Corporation in exchange for timely payment on the note payable.

See Accompanying Notes to the Basic Financial Statements

NOTE 1 – DESCRIPTION OF ACADEMY

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

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

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

The Academy contracts with Accel Schools for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relation, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (continued)

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

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

Cash and Cash Equivalents - Cash received by the Academy is reflected as “Cash and Cash Equivalents” on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2017.

Prepaid Items - The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2017, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Capital Assets - The Academy’s capital assets during fiscal year 2017 consisted of construction in progress, computers, furniture, leasehold improvements and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition value as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All capital assets, except for construction in progress 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:

Description	Useful Lives
Computers & Software	5-20 years
Furniture & Equipment	5-20 years
Leasehold Improvements	Remaining term of lease

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (continued)

Net Position - Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The board has not adopted any enabling legislation restricted any resources. The statement of net position reflects $378,461 net invested in capital assets, which represents capital assets net of accumulated depreciation.

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

***Deferred Inflows and Deferred Outflows of Resources* -** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 10)

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

***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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (continued)

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

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

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

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

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

NOTE 3 - DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2017, the book balance was $60,815, and the bank balance of Academy's deposits was $78,790. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

NOTE 4 – RECEIVABLES

At June 30, 2017, the Academy had intergovernmental receivables of $55,899. These receivables represent monies due from State Foundation payment, Title I, IDEA and School Counselor Grant, which was not received as of year-end. The Academy also had accounts receivables in the amount of $52,639. These receivables represent monies for shared employee expense, which was not received as of June 30, 2017. All receivables are expected to be collected within one year.

NOTE 5 – CAPITAL ASSETS

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

	Balance 06/30/16	Additions	Deletions	Balance 06/30/17
Capital Assets:				
Construction in Progress - Non-Depreciable	$ 39,474	$ 67,104	$ (106,578)	$ -
Leasehold Improvements	404,943	106,578	-	511,521
Furniture & Equipment	82,299	45,000	-	127,299
Computers & Software	264,715	20,160	-	284,875
Total Capital Assets	791,431	238,842	(106,578)	923,695
Less Accumulated Depreciation:				
Leasehold Improvements	(197,045)	(57,599)	-	(254,644)
Furniture & Equipment	(37,875)	(15,338)	-	(53,213)
Computers & Software	(223,924)	(13,453)	-	(237,377)
Total Accumulated Depreciation	(458,844)	(86,390)	-	(545,234)
Total Capital Assets, Net	$ 332,587	$ 152,452	$ (106,578)	$ 378,461

NOTE 6 – ADVANCES PAYABLE

In 2015, the Academy entered into short-term loans against future foundation payments with Charter School Capital, to be repaid over a three month period from issuance. At June 30, 2017 the Academy had $1,135,200 outstanding in these advances. During 2017 the Academy borrowed an additional $3,055,200 and repaid $2,930,500. The Academy paid interest on the borrowing in the amount of $159,087.

A summary of short-term advances for the Academy at June 30, 2017, is as follows:

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017
Charter School Capital	$ 1,010,500	$ 3,055,200	$ (2,930,500)	$ 1,135,200

NOTE 7 – LONG-TERM OBLIGATIONS

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

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017	Due Within One Year
Net Pension Liability:					
STRS	$ 5,368,869	$ 2,459,291	-	$ 7,828,160	$ -
SERS	405,247	68,100	-	473,347	-
Total Net Pension Liability	5,774,116	2,527,391	-	8,301,507	-
Capital Lease Payable	5,584	-	(5,584)	-	-
Tatonka - Notes Payable	2,999,857	-	(528,882)	2,470,975	352,354
Total	$ 8,779,557	$ 2,527,391	$ (534,466)	$ 10,772,482	$ 352,354

In January 2015, the Academy restructured its existing debt through an agreement with Tatonka Capital. The note of $3,687,628 and 7% interest requires monthly payments of $42,817 and will mature on December 15, 2024. The Academy received $200,000 in discounts on the principal during fiscal year 2017. Principal payments and discounts during the year totaled $528,882 and interest payments totaled $186,901.

The following is a schedule of the future minimum payments required under the Tatonka promissory notes as of June 30, 2017:

Fiscal Year Ending June 30:	Amount
2018	$ 513,798
2019	513,798
2020	513,798
2021	513,798
2022	513,798
2023-2024	599,431
Total Future Minimum Note payments	3,168,421
Less: Amount Representing Interest	(697,446)
Present Value of Future Minimum Note Payments	$ 2,470,975

NOTE 8 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Academy contracted with Pashley Insurance Agency to obtain insurance coverage with the Hartford Casualty Insurance Company.

General Liability:	
Each Occurrence	$ 1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Bodily Injury Limit	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	8,000,000
Aggregate Limit	8,000,000
Excess/Umbrella Liability:	
Building & BPP	8,896,500

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

NOTE 9 – PURCHASED SERVICES

For the period July 1, 2016 through June 30, 2017, purchased service expenses were as follows:

Purchased Services	Amount
Personnel Services	$ 4,088,798
Professional and Technical Services	885,356
Property Services	899,836
Utilities	148,713
Travel and Meetings	2,758
Communications	45,576
Contractual Trade Services	127,147
	$ 6,198,183

NOTE 10 – DEFINED BENEFIT PENSION PLANS

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

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

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

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

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

School Employees Retirement System (SERS)

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

School Employees Retirement System (SERS) – continued

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

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

The Academy's contractually required contribution to SERS was $33,188 for fiscal year 2017.

State Teachers Retirement System (STRS)

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) – 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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 to 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.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) – 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. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was $392,361 for fiscal year 2017.

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

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$7,828,160	$473,347	$8,301,507
Proportion of the Net Pension Liability:			
Current Measurement Date	0.02338648%	0.00646730%	
Prior Measurement Date	0.01942633%	0.00710200%	
Change in Proportionate Share	0.00396015%	-0.00063470%	
Pension Expense	$917,261	$21,047	$938,308

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the Academy's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) – continued

At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$316,294	$6,386	$322,680
Net difference between projected and actual earnings on pension plan investments	649,949	39,045	688,994
Changes of assumptions	0	31,599	31,599
Changes in proportion and differences between Academy contributions and proportionate Share of contributions	- 1,110,664	0	1,110,664
Academy contributions subsequent to the measurement date	392,361	33,188	425,549
Total Deferred Outflows of Resources	$2,469,268	$110,218	$2,579,486
Deferred Inflows of Resources			
Changes in proportion and differences between Academy contributions and proportionate Share of contributions	$ -	$ 50,202	$ 50,202

$425,549 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	STRS	SERS	Total
2018	$ 451,252	$ (2,494)	$ 448,758
2019	451,251	(2,518)	448,733
2020	700,654	20,618	721,272
2021	473,750	11,222	484,972
Total	$2,076,907	$26,828	$2,103,735

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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

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

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – SERS (continued)

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
	100.00 %	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. 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 earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – SERS (continued)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	$626,682	$473,347	$344,999

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.

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

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

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

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Academy's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$10,402,988	$7,828,160	$5,656,140

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

NOTE 11 – POSTEMPLOYMENT BENEFITS

School Employees Retirement System (SERS)

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

NOTE 11 – POSTEMPLOYMENT BENEFITS

School Employees Retirement System (SERS)

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the Academy's surcharge obligation was $3,884.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The Academy's contributions for health care for the fiscal year ended June 30, 2015, was $1,484. The full amount has been contributed for fiscal year 2015.

State Teachers Retirement Systems (STRS)

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

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

NOTE 12 - CONTINGENCIES

Grants - The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2017.

Litigation **-** There are currently no matters in litigation with the Academy as defendant.

Full-Time Equivalency - Academy foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the Academy for fiscal year 2017.

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the Academy.

In addition, the Academy's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the Academy.

NOTE 13 – BUILDING LEASES

The Academy has entered into a lease for the period from January 2005 through December 2019 with Spirit Capital, LLC, Inc. for the use of the main building and grounds as a school facility. Rent costs incurred totaled $806,000 for the fiscal year. Under the lease agreement, the Academy is responsible for paying all utilities, maintenance and repairs, and applicable property taxes.

There are scheduled inflationary rent adjustments (lesser of 5% or CPI factor) effective January 1 once every two years. The lease also stipulates that renovation investments in the building by the owner will cause the rent to increase by an annual factor of 9.25% - 10% of the investment. During fiscal 2017, the owner invested no funds into the property.

NOTE 13 – BUILDING LEASES (continued)

The following is a schedule of the future minimum payments for base rent required under the lease as of June 30, 2017 (does not include additional building investments by the owner / landlord or facility costs pass-through):

Fiscal Year Ending June 30	Amount
2018	$ 806,000
2019	806,000
2020	543,064
Total minimum lease payments	$ 2,155,064

NOTE 14 - SPONSOR

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) through June 30, 2018. As part of this contract, the Sponsor is entitled to a maximum of 2% of foundation revenues. Total amount due and paid for fiscal year 2017 was $95,850.

NOTE 15 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES

The Academy entered into an agreement with Accel Schools, a management company, to provide legal, financial, and other management support services for fiscal year 2017. The agreement was for a period of five years beginning July 1, 2015. Management fees are calculated as 12.5% of the Academy's State Revenue, plus $20,000 for managing Federal Funds. The total amount due from the Academy for the fiscal year ending June 30, 2017 was $619,745 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Changes in Net Position.

Also per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred by Accel Schools. These expenses include rent, salaries of Accel employees working in at the Academy and other costs related to providing education and administrative services. The total amount billed to the Academy inclusive of management fees during fiscal year 2017 was $4,198,652.

NOTE 15 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES (Continued)

The following table is a summary of the management company expenses during fiscal year 2017:

		Regular Instruction (1100 Function Codes)	Special Instruction (1200 Function Codes)	Support Services (2000 Function Codes)	Total
		1100	1200	2000	
Direct Expenses:					
Salaries & Wages (100 Object Codes)	100	$ 2,228,865	$ 102,951	$ 403,158	$ 2,734,974
Employees' Benefits (200 Object Codes)	200	$ 674,394	$ 26,400	$ 112,545	$ 813,339
Professional & Technical Services (410 Object Codes)	410			$ 29,549	$ 29,549
Other Supplies (510 Object Codes)	510			$ 1,044	$ 1,044
Total Direct Expenses		$ 2,903,259	$ 129,352	$ 546,297	$ 3,578,907
Indirect Expenses:					
Overhead				$ 82,825	$ 82,825
Total Expenses		**$ 2,903,259**	**$ 129,352**	**$ 629,122**	**$ 3,661,732**

Accel Schools charges expenses benefiting more than one school (i.e. overhead) are pro-rated based on full time equivalent (FTE) head count as of June 30, 2017 by each school it manages.

NOTE 16 – CAPITAL LEASE-LEASE DISCLOSURE

In fiscal 2009, the Academy entered into a capitalized lease for the purchase of: HVAC unit. The lease meet the criteria of capital lease as defined by the Standards, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The lease term was 84 months with a monthly base payment of $2,130. During the fiscal year the Academy made principal payments of $5,584 and fully paid off the lease.

NOTE 17 – MANAGEMENT'S PLAN

For fiscal year 2017, the Academy had a net position deficit of $(10,281,548). The Academy's net deficit in fiscal year 2017 increased from the $(9,999,248) net deficit in fiscal 2016. Enrollment increased in fiscal year 2017 to 696.40, up from 675 in fiscal year 2016. The Academy's ability to maintain a stable administrative and instructional team along with active advertising via print, radio, mailings and through referrals of current parents is anticipated to help produce the likelihood of future enrollment growth leading to surpluses and provide an opportunity for the school to recover from its prior deficits.

COLUMBUS PREPARATORY ACADEMY - FRANKLIN COUNTY, OHIO

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

	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.00646730%	0.00710200%	0.00818200%	0.00818200%
Academy's Proportionate Share of the Net Pension Liability	$ 473,347	$ 405,247	$ 414,086	$ 486,557
Academy's Covered Payroll	$ 291,257	$ 213,809	$ 224,726	$ 259,465
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	162.52%	189.54%	184.26%	187.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available

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

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

COLUMBUS PREPARATORY ACADEMY - FRANKLIN COUNTY, OHIO

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

	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.02338648%	0.01942633%	0.01798518%	0.01798518%
Academy's Proportionate Share of the Net Pension Liability	$ 7,828,160	$ 5,368,869	$ 4,374,618	$ 5,211,017
Academy's Covered Payroll	$ 2,146,643	$ 2,026,814	$ 1,994,323	$ 1,771,154
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	364.67%	264.89%	219.35%	294.22%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available

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

COLUMBUS PREPARATORY ACADEMY - FRANKLIN COUNTY, OHIO

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

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 33,188	$ 40,776	$ 28,180	$ 31,147	$ 35,910
Contributions in Relation to the Contractually Required Contribution	$ (33,188)	$ (40,776)	$ (28,180)	$ (31,147)	$ (35,910)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 237,057	$ 291,257	$ 213,809	$ 224,726	$ 259,465
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 33,701	$ 30,745	$ 40,981	$ 33,542	$ 27,774
Contributions in Relation to the Contractually Required Contribution	$ (33,701)	$ (30,745)	$ (40,981)	$ (33,542)	$ (27,774)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered-Employee Payroll	$ 250,565	$ 244,590	$ 302,666	$ 340,874	$ 282,831
Contributions as a Percentage of Covered-Employee Payroll	13.45%	12.57%	13.54%	9.84%	9.82%

COLUMBUS PREPARATORY ACADEMY - FRANKLIN COUNTY, OHIO

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

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 392,361	$ 300,530	$ 283,754	$ 259,262	$ 230,250
Contributions in Relation to the Contractually Required Contribution	$ (392,361)	$ (300,530)	$ (283,754)	$ (259,262)	$ (230,250)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 2,802,579	$ 2,146,643	$ 2,026,814	$ 1,994,323	$ 1,771,154
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 243,288	$ 238,865	$ 225,670	$ 200,075	$ 161,687
Contributions in Relation to the Contractually Required Contribution	$ (243,288)	$ (238,865)	$ (225,670)	$ (200,075)	$ (161,687)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Acadmy's Covered Payroll	$ 1,871,446	$ 1,837,423	$ 1,735,923	$ 1,539,038	$ 1,243,746
Contributions as a Percentage of Covered Payroll	13.00%	13.00%	13.00%	13.00%	13.00%

Rea & associates a brighter way

December 26, 2017

To the Board of Directors
Columbus Preparatory Academy
Franklin County, Ohio
3330 Chippewa Street
Columbus, Ohio 43204

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Columbus Preparatory Academy, Franklin County, Ohio (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 26, 2017, in which we noted the Academy has suffered recurring losses from operations and has a net position deficit of $10,281,548, including the net effect of net pension liability and related accruals totaling $5,772,223, that raises substantial doubt about its ability to continue as a going concern.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Cambridge, Ohio

COLUMBUS 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 6, 2018

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