

**ARTS AND COLLEGE
PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2017**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Board of Directors
Arts & College Preparatory Academy
40 Hill Road South
Pickerington, Ohio 43147

We have reviewed the *Independent Auditor's Report* of the Arts & College Preparatory Academy, Franklin County, prepared by James G. Zupka, CPA, 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 Arts & College Preparatory Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

February 7, 2018

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**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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JAMES G. ZUPKA, C.P.A., INC.

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board
Arts and College Preparatory Academy
Columbus, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Arts and College 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 Arts and College Preparatory Academy as of June 30, 2017, and the changes in financial position and cash flows thereof 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 Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, 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 11, 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.



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 11, 2017

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The management's discussion and analysis of the Arts and College Preparatory Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ending June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- In total, the Academy's net position decreased \$6,862 from net position at June 30, 2016.
- The Academy had total revenues of \$3,354,590, including operating revenues of \$2,973,315 and non-operating revenues of \$381,275 which supported operating expenses of \$3,291,081 and non-operating expenses of \$70,371 during fiscal year 2017.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

Reporting the Academy Financial Activities

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did the Academy perform financially during 2017?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, this report as presents certain required supplementary information concerning the Academy's net pension liability.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

The table below provides a summary of the Academy's net position for fiscal year 2017 and 2016.

	2017	2016
<u>Assets</u>		
Current assets	\$ 1,637,792	\$ 1,319,664
Capital assets, net	2,948,591	3,053,301
Total assets	4,586,383	4,372,965
<u>Deferred outflows</u>	1,158,177	506,433
<u>Liabilities</u>		
Current liabilities	308,880	300,820
Long-term liabilities:		
Due within one year	47,318	45,466
Net pension liability	4,495,382	3,378,951
Other amounts due in more than one year	1,636,820	1,681,910
Total liabilities	6,488,400	5,407,147
<u>Deferred inflows</u>	-	209,229
<u>Net Position</u>		
Net investment in capital assets	1,264,453	1,325,925
Restricted	106,328	146,846
Unrestricted (deficit)	(2,114,621)	(2,209,749)
Total net position (deficit)	\$ (743,840)	\$ (736,978)

The Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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

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

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

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

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

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Academy's net position was a deficit of \$743,840, a decrease of \$6,862 from previous year.

Assets

Current assets increased by \$318,128 from 2016; changes in current assets were primarily due to cash transactions during the year. Cash and investments increased \$373,573 from 2016.

At year-end, capital assets, net of accumulated depreciation, represented 64.29% percent of total assets. Capital assets at June 30, 2017, consisted of land, land improvements, buildings and improvements, and furniture, fixtures and equipment. Capital assets are used to provide services to the students and are not available for future spending.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

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

Liabilities

Current liabilities increased \$8,060 from June 30, 2016.

The Academy's long-term liabilities included a loan payable balance of \$1,684,132 for purchase and renovation of a new school building which was completed in fiscal year 2011.

The changes in deferred inflows/outflows of resources are due to net pension liability as previously discussed.

Net Position

The Academy's overall net position remained relatively stable with a decrease of \$6,862.

The table below shows the changes in net position for the fiscal year 2017 and fiscal year 2016.

Change in Net Position

	<u>2017</u>	<u>2016</u>
<u>Operating Revenues:</u>		
State foundation	\$ 2,665,682	\$ 2,535,024
Special education weighted funding	232,888	177,096
Tuition and fees	17,668	38,801
Charges for services	27,476	29,355
Other revenues	<u>29,601</u>	<u>6,970</u>
Total operating revenue	<u>2,973,315</u>	<u>2,787,246</u>
<u>Operating Expenses:</u>		
Salaries and wages	1,614,551	1,486,128
Fringe benefits	731,571	397,525
Purchased services	599,982	513,892
Materials and supplies	146,119	165,024
Other operating expenses	46,506	51,510
Depreciation	<u>152,352</u>	<u>136,005</u>
Total operating expenses	<u>3,291,081</u>	<u>2,750,084</u>
<u>Non-operating revenues (expenses):</u>		
Federal, state, and local grants and contributions	380,900	374,936
Interest income	375	186
Interest expense	(70,371)	(69,921)
Loss on disposal of capital assets	<u>-</u>	<u>(56)</u>
Total non-operating revenues (expenses)	<u>310,904</u>	<u>305,145</u>
Change in net position	(6,862)	342,307
Net position (deficit) at the beginning of the year	<u>(736,978)</u>	<u>\$(1,079,285)</u>
Net position (deficit) at the end of the year	<u>\$ (743,840)</u>	<u>\$ (736,978)</u>

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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. The Academy received higher State foundation revenues during fiscal year 2017. The increase in fringe benefit expenses was related to the increase in net pension liability.

Capital Assets

At June 30, 2017, the Academy had \$2,948,591, net of accumulated depreciation, invested in land, land improvements, buildings and improvements, and furniture, fixtures and equipment. Refer to Note 6 in the notes to the basic financial statements for more detail on the Academy's capital assets.

**Capital Assets at June 30
(Net of Depreciation)**

	<u>2017</u>	<u>2016</u>
Land	\$ 419,619	\$ 419,619
Land improvements	20,731	7,805
Buildings and improvements	2,465,246	2,545,899
Furniture, fixtures and equipment	<u>42,995</u>	<u>79,978</u>
Total capital assets	<u>\$ 2,948,591</u>	<u>\$ 3,053,301</u>

Debt Administration

During fiscal year 2010, the Academy entered into a loan agreement to borrow \$1,686,000 to finance the purchase and renovation of real property. In fiscal year 2015, the Academy obtained a new loan for \$1,785,000 at a 4.0 percent interest rate and retired the original loan. At June 30, 2017, the balance of the loan is \$1,684,138 and is reported as a long-term liability on the statement of net position. Of this balance, \$47,318 is due within one year. See Note 7 to the basic financial statements for detail on the loan.

Current Financial Related Activities

The Academy relies primarily on the State foundation funds and federal and state operating grants.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for state and federal funds that are made available to finance its operations.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, 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 questions about this report or need additional financial information contact Mr. Dan Lamb, Treasurer, 40 Hill Road South, Pickerington, Ohio 43147.

**BASIC
FINANCIAL STATEMENTS**

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,545,343
Receivables:	
Intergovernmental.	89,624
Prepayments	<u>2,825</u>
Total current assets	<u>1,637,792</u>
Non-current assets:	
Land.	419,619
Depreciable capital assets, net.	<u>2,528,972</u>
Total non-current assets.	<u>2,948,591</u>
Total assets.	<u>4,586,383</u>
Deferred outflows of resources:	
Pension - STRS.	1,011,424
Pension - SERS.	<u>146,753</u>
Total deferred outflows of resources	<u>1,158,177</u>
Liabilities:	
Current liabilities:	
Accounts payable.	27,965
Accrued wages and benefits	218,495
Pension obligation payable.	37,883
Intergovernmental payable	20,046
Accrued interest payable	<u>4,491</u>
Total current liabilities	<u>308,880</u>
Non-current liabilities:	
Due within one year.	47,318
Due in more than one year:	
Net pension liability.	4,495,382
Other amounts due in more than one year	<u>1,636,820</u>
Total non-current liabilities	<u>6,179,520</u>
Total liabilities	<u>6,488,400</u>
Net position:	
Net investment in capital assets.	1,264,453
Restricted for:	
Capital projects.	57,593
State programs.	11,550
Federal programs.	11,028
Other purposes.	26,157
Unrestricted (deficit).	<u>(2,114,621)</u>
Total net position (deficit)	<u>\$ (743,840)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARTS AND COLLEGE 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 foundation revenue	\$ 2,665,682
Special education weighted funding	232,888
Tuition and fees.	17,668
Charges for services.	27,476
Other	29,601
Total operating revenues	<u>2,973,315</u>
Operating expenses:	
Salaries and wages.	1,614,551
Fringe benefits.	731,571
Purchased services.	599,982
Materials and supplies	146,119
Other.	46,506
Depreciation	152,352
Total operating expenses.	<u>3,291,081</u>
Operating loss.	<u>(317,766)</u>
Non-operating revenues (expenses):	
Federal and state grants.	365,870
Interest revenue	375
Contributions and donations.	15,030
Interest and fiscal charges	(70,371)
Total non-operating revenues (expenses)	<u>310,904</u>
Change in net position	(6,862)
Net position (deficit) at beginning of year.	<u>(736,978)</u>
Net position (deficit) at end of year	<u><u>\$ (743,840)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Cash flows from operating activities:	
Cash received from State foundation	\$ 2,639,597
Cash received from Special education weighted funding	232,888
Cash received from tuition and fees	17,668
Cash received from sales/charges for services.	27,476
Cash received from other operations	28,418
Cash payments for salaries and wages.	(1,601,869)
Cash payments for fringe benefits	(474,894)
Cash payments for contractual services	(552,428)
Cash payments for materials and supplies	(127,707)
Cash payments for other expenses	(45,637)
	<hr/>
Net cash provided by operating activities.	143,512
Cash flows from noncapital financing activities:	
Cash received from Federal and state grants	387,575
Cash received from contributions and donations	15,030
	<hr/>
Net cash provided by noncapital financing activities.	402,605
Cash flows from capital and related financing activities:	
Interest and fiscal charges	(70,486)
Principal retirement on loans.	(43,238)
Acquisition of capital assets	(59,207)
	<hr/>
Net cash used in capital and related financing activities.	(172,931)
Cash flows from investing activities:	
Interest received	387
	<hr/>
Net cash provided by investing activities	387
Net increase in cash and cash equivalents.	373,573
Cash and cash equivalents at beginning of year	1,171,770
Cash and cash equivalents at end of year	\$ 1,545,343
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (317,766)
Adjustments:	
Depreciation	152,352
Changes in assets and liabilities:	
Intergovernmental receivable.	(11,342)
Prepayments.	45,070
Accounts payable.	8,287
Accrued wages and benefits.	21,292
Intergovernmental payable.	(12,504)
Pension obligation payable.	2,665
Net pension liability.	1,116,431
Deferred inflows - pension.	(209,229)
Deferred outflows - pension.	(651,744)
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Net cash provided by operating activities	\$ 143,512
	<hr/> <hr/>

Non-cash transactions:

During fiscal year 2016, the Academy purchased \$11,565 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Arts and College Preparatory Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. Management is not aware of any course of action or series of events which could adversely affect the Academy’s tax-exempt status. The Academy is a general population high school. One of the Academy’s missions is to provide students with academic and art knowledge and skills necessary for them to be successful in any post-secondary educational opportunities they choose. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy operates pursuant to a sponsorship agreement with the Ohio Council of Community Schools (the “Sponsor”) for a period of five years expiring June 30, 2020. 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.

The Academy operates under the direction of a seven-member Board of Trustees. The Board of Trustees is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy’s one instructional/support facility staffed by 8 non-certified and 28 certified full time teaching personnel, who provide services to approximately 389 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Basis of Presentation

The Academy’s basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where it has been decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a “flow of economic resources” measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the statements of net position. Net position is segregated into restricted and unrestricted components and the Academy’s net investment in capital assets.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Accounting

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

D. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents 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, See Note 11 for deferred outflows of resources related the Academy's net pension liability.

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. For the Academy, See Note 11 for deferred inflows of resources related to the Academy's net pension liability.

E. Budgetary Process

Community schools must adopt a spending plan under Ohio Revised Code. Section 5705.391 requires annual appropriations and annual revenues estimates. The contract between the Academy and its sponsor requires the Academy to comply with the financial plan that details an estimated budget for each year of the contract. The Academy is compliant.

F. Cash and Investments

To improve cash management, all cash received by the Academy is pooled in a central bank account. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For presentation on the financial statements, investments of the cash management pool and investments with the original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

Investments are reported at fair value, except for non-negotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market prices. The Academy had no investments during fiscal year 2017.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Academy maintains a capitalization threshold of \$1,500. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	10 - 40 years
Land improvements	10 years
Furniture, fixtures and equipment	3 - 5 years

H. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its 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 amount restricted for other purposes includes amounts restricted for food service and other local grants.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

I. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, State and Federal Food Reimbursement grants, Title VI-B, Title I-A, and Title II-A. Revenues received from the State Foundation Program are recognized as operating revenues in the accompanying financial statements. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Federal and State grant revenue for fiscal year 2017 was \$365,870.

J. Accrued Liabilities

The Academy has recognized certain expenses due, but unpaid as of June 30, 2017. These expenses are reported as accrued liabilities in the accompanying financial statements.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity. For the Academy, these revenues are payments from the State Foundation Program, extracurricular activities, classroom materials and fees, and other operating revenues, including reimbursement of salaries and benefits for employees. Operating expenses are necessary costs incurred to provide goods or services that are primary activities of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

M. 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.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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.

O. Contributions and Donations

Non-cash contributions and donations are recorded at their fair market value on the date donated.

P. Economic Dependency

The Academy receives approximately 97.31 percent of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the Ohio Department of Education.

Q. Fair Value of Financial Instruments

The Academy's significant financial instruments are cash, accounts receivable, accounts payable and debt. For these financial instruments, carrying values approximate fair value due to their short-term nature. The debt approximates the fair value due to the Academy's ability to obtain similar financing with similar terms.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY

Change in Accounting Principles

For fiscal year 2017, the Academy has implemented GASB Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", 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. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The implementation of GASB Statement No. 74 did not have an effect on the financial statements of the School.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations 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 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS

At June 30, 2017, the carrying amount of all Academy deposits was \$1,545,343. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2017, \$1,301,954 of the Academy's bank balance of \$1,585,679 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (the "FDIC") and \$33,815 was covered by the National Credit Union Administration (NCUA).

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS – (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the Academy’s deposits may not be returned. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental receivables arising from grants and entitlements receivable. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivable:	Amount
SERS refund	\$ 19,756
IDEA Part-B	15,518
Title I	44,415
Olentangy City Schools	1,183
Ohio BWC Refund	2,891
Title II-A	5,861
 Total intergovernmental receivables	 \$ 89,624

NOTE 6 - CAPITAL ASSETS

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

	Balance 6/30/16	Additions	Deductions	Balance 06/30/17
Capital assets, not being depreciated:				
Land	\$ 419,619	\$ -	\$ -	\$ 419,619
Total capital assets, not being depreciated	419,619	-	-	419,619
Capital assets, being depreciated:				
Land improvements	8,490	14,500	-	22,990
Buildings and improvements	2,859,148	25,662	-	2,884,810
Furniture, fixtures and equipment	246,820	7,480	-	254,300
Total capital assets being depreciated	3,114,458	47,642	-	3,162,100
Less: accumulated depreciation				
Land improvements	(685)	(1,574)	-	(2,259)
Buildings and improvements	(313,249)	(106,315)	-	(419,564)
Furniture, fixtures and equipment	(166,842)	(44,463)	-	(211,305)
Total accumulated depreciation	(480,776)	(152,352)	-	(633,128)
Capital assets, net	\$ 3,053,301	\$ (104,710)	\$ -	\$ 2,948,591

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - LONG-TERM OBLIGATIONS

On January 19, 2010, the Board authorized the purchase and renovation of the real property located at 4401 and 4501 Hilton Corporate Drive. On April 9, 2010, the Board authorized the Academy to enter into a loan agreement with Huntington National Bank to borrow an amount up to \$1,800,000 for a five year term, commencing when renovations are completed, with an annual interest rate of 6.3 percent to 7.5 percent secured by the real property at 4401 and 4501 Hilton Corporate Drive. During the construction period, or until the permanent loan was in place, interest was at the rate of 7 percent per annum or less. During fiscal year 2011, the loan was finalized in the amount of \$1,686,000.

On December 18, 2014, the Academy entered into a loan agreement with Self-Help New Markets XII, LLC. for \$1,785,000 at a 4.0 percent interest rate. The Academy used a portion of the proceeds of this loan to repay the \$1,432,516 principal remaining to Huntington National Bank.

The outstanding loan has been reported on the statement of net position as a long-term liability with \$47,318 due within one year and \$1,636,820 due in more than one year. The Academy made principal and interest payments of \$70,486 and \$43,238, respectively, during fiscal year 2017 on the loan to Self-Help New Markets XII, LLC.

A summary of the loan activity for fiscal year 2017 follows:

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2017</u>	Due Within <u>One Year</u>
Net pension liability	\$ 3,378,951	\$ 1,116,431	\$ -	\$ 4,495,382	\$ -
Loans payable	<u>1,727,376</u>	<u>-</u>	<u>(43,238)</u>	<u>1,684,138</u>	<u>47,318</u>
Total long-term obligations	<u>\$ 5,106,327</u>	<u>\$ 1,116,431</u>	<u>\$ (43,238)</u>	<u>\$ 6,179,520</u>	<u>\$ 47,318</u>

See Note 11 for detail on the net pension liability.

The following is a summary of the Academy's future debt service requirements to maturity for the loan:

Fiscal Year Ended	Loan Payable		
	Principal	Interest	Total
2018	\$ 47,318	\$ 66,406	\$ 113,724
2019	49,246	64,478	113,724
2020	51,252	62,472	113,724
2021	53,341	60,383	113,724
2022	<u>1,482,981</u>	<u>14,760</u>	<u>1,497,741</u>
Total	<u>\$ 1,684,138</u>	<u>\$ 268,499</u>	<u>\$ 1,952,637</u>

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2017, purchased services expenses were as follows:

Professional and technical services	\$ 239,716
Property services	57,523
Travel and meetings	25,776
Communications	13,060
Utilities	67,365
Contracted trade	135,806
Tuition	47,734
Transportation	12,068
Other	<u>934</u>
Total	<u>\$ 599,982</u>

NOTE 9 - RISK MANAGEMENT

A. Insurance Coverage

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. There have been no insurance settlements that exceeded insurance coverage in the last three years. In addition, there have been no significant reductions in insurance coverage from the prior year.

For the fiscal year ended 2017, the Academy contracted with Philadelphia Insurance Company and had the following insurance coverage:

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$ 1,000,000
General aggregate	2,000,000
Medical expenses	5,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products - aggregate	2,000,000
Employee benefits	1,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	10,000,000
Aggregate	10,000,000
Workers compensation and employers liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RISK MANAGEMENT - (Continued)

<u>Coverage</u>	<u>Limits of Coverage</u>
Building and contents:	
Building	4,346,000
Contents	500,000
Other:	
Property	1,000,000
Crime	25,000

B. Workers' Compensation

The Academy pays the Ohio Bureau of Workers' Compensation a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical, Dental, and Vision Benefits

The Academy has contracted through an independent agent to provide employee medical, dental and vision insurance to its full-time employees who work 20 or more hour per week. The Academy pays 100% of the monthly premiums for all selected coverage for individual employees. Employees with dependents electing only medical insurance are required to pay 12.5 percent of premiums for dependent coverage, while the Academy provides 100 percent of monthly dependent premiums for all insurance for employees with dependents electing vision and/or dental insurance coverage.

NOTE 10 - FISCAL SERVICES AND SPONSORSHIP CONTRACTS

The Academy entered into a service contract with Charter School Specialists, LLC ("CSS"), for a period ending June 30, 2017, to provide fiscal, payroll and Comprehensive Continuous Planning consulting services. The Academy paid CSS \$42,288 in service fees for fiscal year 2017.

The Academy entered into a five-year sponsorship agreement with the Ohio Council of Community Schools commencing on July 1, 2015. Sponsorship fees are calculated as 1 percent of the fiscal year 2017 State foundation payments received by the Academy. The total amount due from the Academy for fiscal year 2017 was \$27,020 all of which was paid prior to June 30, 2017.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - 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.

The 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 pension obligation payable.

Plan Description - School Employees Retirement System (SERS)

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

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$24,297 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

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

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 - 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. 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 \$192,000 for fiscal year 2017. Of this amount, \$9,223 is reported as pension obligation payable.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.00509210%	0.01117481%	
Proportion of the net pension liability current measurement date	<u>0.00565980%</u>	<u>0.01219232%</u>	
Change in proportionate share	<u>0.00056770%</u>	<u>0.00101751%</u>	
Proportionate share of the net pension liability	\$ 414,245	\$ 4,081,137	\$ 4,495,382
Pension expense	\$ 73,310	\$ 398,445	\$ 471,755

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 5,587	\$ 164,896	\$ 170,483
Net difference between projected and actual earnings on pension plan investments	34,167	338,844	373,011
Changes of assumptions	27,653	-	27,653
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	55,049	315,684	370,733
Academy contributions subsequent to the measurement date	<u>24,297</u>	<u>192,000</u>	<u>216,297</u>
Total deferred outflows of resources	<u>\$ 146,753</u>	<u>\$ 1,011,424</u>	<u>\$ 1,158,177</u>

\$216,297 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	\$ 40,261	\$ 165,119	\$ 205,380
2019	40,235	165,119	205,354
2020	32,137	295,138	327,275
2021	9,823	194,048	203,871
Total	\$ 122,456	\$ 819,424	\$ 941,880

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 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

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

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$ 548,435	\$ 414,245	\$ 301,923

Actuarial Assumptions - STRS

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

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

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 5,423,499	\$ 4,081,137	\$ 2,948,775

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 NPL is expected to be significant.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, 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, none of the employer contribution 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 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 \$2,974.

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$2,974, \$731, and \$2,860, respectively. The fiscal year 2017 amount has been reported as pension obligation payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

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

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

Funding Policy - Ohio law 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 Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Academy did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 13 - CONTINGENCIES

A. Grants and Enrollment

The Academy receives significant financial assistance from numerous 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 effect on the financial statements on the financial position of the academy at June 30, 2017.

B. School Foundation

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017.

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 School.

In addition, the Academy's contracts with their Sponsor 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 School.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 13 - CONTINGENCIES - (Continued)

C. Litigation

The Academy is not involved in any additional litigation that, in the opinion of management, would have a material effect on the financial statements at June 30, 2017.

NOTE 14 - TAX EXEMPT STATUS

The Academy was approved under §501(c)(3) of the Internal Revenue Code as a tax exempt organization. Management is not aware of any course of action or series of events that might adversely affect the Academy's tax exempt status.

The Academy's Form 990, Return of Organization Exempt From Income Tax, for the years ending June 30, 2017, 2016 and 2015 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

REQUIRED SUPPLEMENTARY INFORMATION

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**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.00565980%	0.00509210%	0.00390600%	0.00390600%
Academy's proportionate share of the net pension liability	\$ 414,245	\$ 290,560	\$ 197,680	\$ 232,277
Academy's covered-employee payroll	\$ 175,771	\$ 153,300	\$ 113,485	\$ 95,643
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	235.67%	189.54%	174.19%	242.86%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

(1) Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.01219232%	0.01117481%	0.01072428%	0.01072428%
Academy's proportionate share of the net pension liability	\$ 4,081,137	\$ 3,088,391	\$ 2,608,516	\$ 3,107,247
Academy's covered-employee payroll	\$ 1,349,914	\$ 1,165,907	\$ 1,095,731	\$ 974,031
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	302.33%	264.89%	238.06%	319.01%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

(1) Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 24,297	\$ 24,608	\$ 20,205	\$ 15,729
Contributions in relation to the contractually required contribution	<u>(24,297)</u>	<u>(24,608)</u>	<u>(20,205)</u>	<u>(15,729)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 173,550	\$ 175,771	\$ 153,300	\$ 113,485
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 13,237	\$ 16,299	\$ 28,167	\$ 22,892	\$ 13,733	\$ 14,466
<u>(13,237)</u>	<u>(16,299)</u>	<u>(28,167)</u>	<u>(22,892)</u>	<u>(13,733)</u>	<u>(14,466)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 95,643	\$ 121,182	\$ 224,081	\$ 169,069	\$ 139,563	\$ 147,312
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 192,000	\$ 188,988	\$ 163,227	\$ 142,445
Contributions in relation to the contractually required contribution	<u>(192,000)</u>	<u>(188,988)</u>	<u>(163,227)</u>	<u>(142,445)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 1,371,429	\$ 1,349,914	\$ 1,165,907	\$ 1,095,731
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 126,624	\$ 122,351	\$ 97,651	\$ 98,703	\$ 102,882	\$ 69,228
<u>(126,624)</u>	<u>(122,351)</u>	<u>(97,651)</u>	<u>(98,703)</u>	<u>(102,882)</u>	<u>(69,228)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 974,031	\$ 941,162	\$ 751,162	\$ 759,254	\$ 791,400	\$ 532,523
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

JAMES G. ZUPKA, C.P.A., INC.

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**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**

To the Members of the Board
Arts and College Preparatory Academy
Columbus, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

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 Arts and College 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 11, 2017.

Internal Control Over Financial Reporting

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

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

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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 11, 2017

**ARTS AND COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

The prior audit report, as of June 30, 2016, included no citations or instances of noncompliance. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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Dave Yost • Auditor of State

ARTS AND COLLEGE 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
FEBRUARY 20, 2018**