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

## AUDIT REPORT

## FOR THE FISCAL YEAR ENDED JUNE 30, 2018


*James G. Zupka, CPA, Inc*.

**Certified Public Accountants**

OHIO AUDITOR OF STATE
**KEITH FABER**

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

We have reviewed the *Independent Auditor's Report* of the Arts and College Preparatory Academy, Franklin County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2017 through June 30, 2018. 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 and College Preparatory Academy is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

February 14, 2019

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**ARTS AND COLLEGE PREPARATORY ACADEMY**
**FRANKLIN COUNTY, OHIO**
**AUDIT REPORT**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**JAMES G. ZUPKA, C.P.A., INC.**
*Certified Public Accountants*
*5240 East 98th Street*
*Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants (216) 475 - 6136 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, 2018, 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, 2018, 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.

### *Emphasis of Matter*

As discussed in Note 3 to the basic financial statements, during 2018, the Academy adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension and Postemployment Benefit Liabilities and Pension and Postemployment Benefit 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.

### *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.

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

December 19, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

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, 2018. 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 2018 are as follows:

- In total, the Academy's net position increased $1,719,288 from the restated net position at June 30, 2017.

- The Academy had total revenues of $3,478,810, including operating revenues of $3,060,365 and non-operating revenues of $418,445 which supported operating expenses of $1,692,194 and non-operating expenses of $67,328 during fiscal year 2018.

**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 2018?" 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 and net OPEB liability.

The table below provides a summary of the Academy's net position for fiscal year 2018 and 2017. Net position (deficit) at June 30, 2017, has been restated as described in Note 3 of the notes to the basic financial statements.

**Net Position**

| | 2018 | Restated 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 2,007,179 | $ 1,637,792 |
| Capital assets, net | 2,969,819 | 2,948,591 |
| Total assets | 4,976,998 | 4,586,383 |
| **Deferred outflows** | | |
| Pension | 1,350,854 | 1,158,177 |
| OPEB | 50,886 | 2,974 |
| Total deferred outflows | 1,401,740 | 1,161,151 |
| **Liabilities** | | |
| Current liabilities | 408,058 | 308,880 |
| Long-term liabilities: | | |
| Due within one year | 49,246 | 47,318 |
| Net OPEB liability | 638,087 | 802,630 |
| Net pension liability | 3,309,216 | 4,495,382 |
| Other amounts | 1,588,619 | 1,636,820 |
| Total liabilities | 5,993,226 | 7,291,030 |
| **Deferred inflows** | | |
| Pension | 134,858 | - |
| OPEB | 74,862 | - |
| Total deferred inflows | 209,720 | - |
| **Net Position** | | |
| Net investment in capital assets | 1,225,949 | 1,264,453 |
| Restricted | 94,773 | 106,328 |
| Unrestricted (deficit) | (1,144,930) | (2,914,277) |
| Total net position (deficit) | $ 175,792 | $ (1,543,496) |

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27." For fiscal year 2018, the Academy adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 of resources related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows of resources related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Academy's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

As a result of implementing GASB 75, the Academy is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position (deficit) at June 30, 2017, from ($743,840) to ($1,543,496).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018 and 2017 (restated), the Academy's net position totaled $175,792 and a deficit of ($1,543,496), respectively.

In accordance with GASB 68 and GASB 75, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows of resources.

**Assets**

Current assets increased by $369,387 from 2017; changes in current assets were primarily due to cash transactions during the year. Cash and investments increased $392,817 from 2017.

At year-end, capital assets, net of accumulated depreciation, represented 59.67% percent of total assets. Capital assets at June 30, 2018, consisted of land, construction in progress, 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.

**Liabilities**

Current liabilities increased $99,178 from June 30, 2017. This is primarily due to contracts payable of $106,005 related to the Academy's school facilities construction project.

The Academy's long-term liabilities included a loan payable balance of $1,637,865 for purchase and renovation of a new school building which was completed in fiscal year 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

## Net Position

The table below shows the changes in net position for the fiscal year 2018 and fiscal year 2017. The net position at June 30, 2017 has been restated as described in Note 3.

### Change in Net Position

| | 2018 | 2017 |
|---|---|---|
| **Operating Revenues:** | | |
| State foundation revenue | $ 2,729,332 | $ 2,665,682 |
| Special education weighted funding | 232,042 | 232,888 |
| Tuition and fees | 34,866 | 17,668 |
| Charges for services | 27,641 | 27,476 |
| Other | 36,484 | 29,601 |
| Total operating revenue | 3,060,365 | 2,973,315 |
| **Operating Expenses:** | | |
| Salaries and wages | 1,620,090 | 1,614,551 |
| Fringe benefits | (870,228) | 731,571 |
| Purchased services | 615,025 | 599,982 |
| Materials and supplies | 155,536 | 146,119 |
| Other | 43,175 | 46,506 |
| Depreciation | 128,596 | 152,352 |
| Total operating expenses | 1,692,194 | 3,291,081 |
| **Non-operating revenues (expenses):** | | |
| Federal, state, and local grants and contributions | 417,735 | 380,900 |
| Interest revenue | 710 | 375 |
| Interest and fiscal charges | (67,328) | (70,371) |
| Total non-operating revenues (expenses) | 351,117 | 310,904 |
| Change in net position | 1,719,288 | (6,862) |
| Net position (deficit) at the beginning of the year (restated) | (1,543,496) | N/A |
| Net position (deficit) at the end of the year | $ 175,792 | $(1,543,496) |

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 expenses still include OPEB expense of $2,974 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $136,330 Consequently, in order to compare 2018 total operating expenses to 2017, the following adjustments are needed:

| | |
|---|---|
| Total 2018 expenses under GASB 75 | $ 1,692,194 |
| Negative OPEB expense under GASB 75 | 136,330 |
| 2018 contractually required contributions | 1,263 |
| Adjusted 2018 operating expenses | 1,829,787 |
| Total 2017 operating expenses under GASB 45 | 3,291,081 |
| Decrease in expenses not related to OPEB | $ (1,461,294) |

Overall, operating expenses decreased $1,598,887 or 48.58%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. The Academy reported ($1,038,424) in pension expense and ($136,330) in OPEB expense mainly due to these benefit changes by the retirement systems. Fluctuations in the pension expense reported under GASB 68 makes it difficult to compare financial information between years.

To assess fluctuations in expenses, the increase or decrease in pension expense should be factored into the analysis. A comparison of pension expense and total expenses, for 2018 and 2017 follows:

| | 2018 | 2017 | (Decrease) |
|---|---|---|---|
| Pension expense | $ (1,038,424) | $ 471,755 | $ (1,510,179) |
| Total expenses | 1,692,194 | 3,291,081 | (1,598,887) |

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation basic aid. State foundation basic aid and special education attributed to 95.67% of total operating and non-operating revenues during fiscal year 2018.

## Capital Assets

At June 30, 2018, the Academy had $2,969,819, net of accumulated depreciation, invested in land, construction in progress, 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)**

| | 2018 | 2017 |
|---|---|---|
| Land | $ 419,619 | $ 419,619 |
| Construction in progress | 106,005 | - |
| Land improvements | 18,432 | 20,731 |
| Buildings and improvements | 2,375,764 | 2,465,246 |
| Furniture, fixtures and equipment | 49,999 | 42,995 |
| Total capital assets | $ 2,969,819 | $ 2,948,591 |

## Debt Administration

During fiscal year 2010, the Academy entered into a loan agreement to finance the purchase and renovation of real property. In fiscal year 2014, the Academy obtained a new loan and retired the original loan. At June 30, 2018, the balance of the loan is $1,637,865 and is reported as a long-term liability on the statement of net position. Of this balance, $49,246 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, 2018

| | | |
|---|---|---|
| **Assets:** | | |
| Current assets: | | |
| Equity in pooled cash | | |
| and cash equivalents | $ | 1,938,160 |
| Receivables: | | |
| Accounts | | 2,783 |
| Intergovernmental | | 65,851 |
| Prepayments | | 385 |
| Total current assets | | 2,007,179 |
| Non-current assets: | | |
| Non-depreciable assets | | 525,624 |
| Depreciable capital assets, net | | 2,444,195 |
| Total non-current assets | | 2,969,819 |
| Total assets | | 4,976,998 |
| Deferred outflows of resources: | | |
| Pension | | 1,350,854 |
| OPEB | | 50,886 |
| Total deferred outflows of resources | | 1,401,740 |
| **Liabilities:** | | |
| Current liabilities: | | |
| Accounts payable | | 7,036 |
| Contracts payable | | 102,945 |
| Accrued wages and benefits | | 241,709 |
| Pension obligation payable | | 28,951 |
| Intergovernmental payable | | 19,989 |
| Retainage payable | | 3,060 |
| Accrued interest payable | | 4,368 |
| Total current liabilities | | 408,058 |
| Non-current liabilities: | | |
| Due within one year | | 49,246 |
| Due in more than one year: | | |
| Net pension liability | | 3,309,216 |
| Net OPEB liability | | 638,087 |
| Other amounts | | 1,588,619 |
| Total non-current liabilities | | 5,585,168 |
| Total liabilities | | 5,993,226 |
| Deferred inflows of resources: | | |
| Pension | | 134,858 |
| OPEB | | 74,862 |
| Total deferred inflows of resources | | 209,720 |
| **Net position:** | | |
| Net investment in capital assets | | 1,225,949 |
| Restricted for: | | |
| Capital projects | | 57,593 |
| State programs | | 11,550 |
| Federal programs | | 351 |
| Other purposes | | 25,279 |
| Unrestricted (deficit) | | (1,144,930) |
| Total net position | $ | 175,792 |

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, 2018

| | |
|---|---|
| **Operating revenues:** | |
| State foundation revenue | $ 2,729,332 |
| Special education weighted funding | 232,042 |
| Tuition and fees | 34,866 |
| Charges for services | 27,641 |
| Other | 36,484 |
| Total operating revenues | 3,060,365 |
| **Operating expenses:** | |
| Salaries and wages | 1,620,090 |
| Fringe benefits | (870,228) |
| Purchased services | 615,025 |
| Materials and supplies | 155,536 |
| Other | 43,175 |
| Depreciation | 128,596 |
| Total operating expenses | 1,692,194 |
| Operating income | 1,368,171 |
| **Non-operating revenues (expenses):** | |
| Federal and state grants | 357,689 |
| Interest revenue | 710 |
| Contributions and donations | 60,046 |
| Interest and fiscal charges | (67,328) |
| Total non-operating revenues (expenses) | 351,117 |
| Change in net position | 1,719,288 |
| **Net position (deficit) at beginning of year (restated)** | (1,543,496) |
| **Net position at end of year** | $ 175,792 |

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, 2018

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash received from State foundation | $ 2,720,501 |
| Cash received from Special education weighted funding | 232,042 |
| Cash received from tuition and fees | 34,866 |
| Cash received from sales/charges for services | 27,641 |
| Cash received from other operations | 37,667 |
| Cash payments for salaries and wages | (1,602,643) |
| Cash payments for fringe benefits | (504,625) |
| Cash payments for contractual services | (614,463) |
| Cash payments for materials and supplies | (174,385) |
| Cash payments for other expenses | (44,280) |
| Net cash provided by operating activities | 112,321 |
| **Cash flows from noncapital financing activities:** | |
| Cash received from Federal and state grants | 377,283 |
| Cash received from contributions and donations | 60,046 |
| Net cash provided by noncapital financing activities | 437,329 |
| **Cash flows from capital and related financing activities:** | |
| Interest and fiscal charges | (67,451) |
| Principal retirement on loans | (46,273) |
| Acquisition of capital assets | (43,819) |
| Net cash used in capital and related financing activities | (157,543) |
| **Cash flows from investing activities:** | |
| Interest received | 710 |
| Net cash provided by investing activities | 710 |
| Net increase in cash and cash equivalents | 392,817 |
| **Cash and cash equivalents at beginning of year** | 1,545,343 |
| **Cash and cash equivalents at end of year** | $ 1,938,160 |
| **Reconciliation of operating income to net cash provided by operating activities:** | |
| Operating income | $ 1,368,171 |
| Adjustments: | |
| Depreciation | 128,596 |
| Changes in assets and liabilities: | |
| Accounts receivable | (2,783) |
| Intergovernmental receivable | 4,179 |
| Prepayments | 2,440 |
| Accounts payable | (20,929) |
| Accrued wages and benefits | 23,214 |
| Intergovernmental payable | (57) |
| Pension obligation payable | (8,932) |
| Net pension liability | (1,186,166) |
| Net OPEB liability | (164,543) |
| Deferred outflows of resources - pension | (192,677) |
| Deferred outflows of resources - OPEB | (47,912) |
| Deferred inflows of resources - pension | 134,858 |
| Deferred inflows of resources - OPEB | 74,862 |
| Net cash provided by operating activities | $ 112,321 |

**Non-cash transactions:**
During fiscal year 2018, the Academy purchased $106,005 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## 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 4 non-certified and 32 certified full time teaching personnel, who provide services to approximately 397 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.

**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 Notes 11 and 12 for deferred outflows of resources related the Academy's net pension liability and net OPEB liability, respectively.

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 Notes 11 and 12 for deferred inflows of resources related to the Academy's net pension liability and net OPEB liability, respectively.

**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 2018.

## 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:

| Description | Estimated Lives |
|---|---|
| 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 of resources and liabilities and deferred inflows of resources. 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 2018 was $357,689.

### J. Accrued Liabilities

The Academy has recognized certain expenses due, but unpaid as of June 30, 2018. These expenses are reported as accrued liabilities in the accompanying financial statements.

## 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/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pension/OPEB and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans 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 far market value on the date donated.

### P. Economic Dependency

The Academy receives approximately 96.76 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.

## NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

### Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the Academy has implemented GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pension”, GASB Statement No. 81 “Irrevocable Split-Interest Agreements” GASB Statement No. 85, “Omnibus 2017” and GASB Statement No. 86, “Certain Debt Extinguishments”.

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the Academy’s postemployment benefit plan disclosures, as presented in Note 12 to the basic financial statements, and added required supplementary information which is presented on pages 42-54.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Academy.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

A net position restatement is required in order to implement GASB Statement No 75. The net position at June 30, 2017 has been restated as follows:

| | Governmental Activities |
|---|---|
| Net position as previously reported | $ (743,840) |
| Deferred outflows - payments subsequent to measurement date | 2,974 |
| Net OPEB liability | (802,630) |
| Restated net position at June 30, 2017 | $ (1,543,496) |

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

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

**NOTE 4 - DEPOSITS**

At June 30, 2018, the carrying amount of all Academy deposits was $1,938,160. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2018, $1,690,781 of the Academy's bank balance of $1,989,047 was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Deposit Insurance Corporation (the "FDIC") and $48,266 was covered by the National Credit Union Administration (NCUA).

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, 2018, 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 | $ 7,974 |
| ODE foundation adjustment | 8,236 |
| IDEA Part-B | 13,742 |
| Title I | 31,494 |
| Title IV-A | 14 |
| Ohio BWC Refund | 3,441 |
| Title II-A | 950 |
| Total intergovernmental receivables | $ 65,851 |

## NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

| | Balance 6/30/17 | Additions | Deductions | Balance 06/30/18 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 419,619 | $ - | $ - | $ 419,619 |
| Construction in progress | - | 106,005 | - | 106,005 |
| Total capital assets, not being depreciated | 419,619 | 106,005 | - | 525,624 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 22,990 | - | - | 22,990 |
| Buildings and improvements | 2,884,810 | 12,151 | - | 2,896,961 |
| Furniture, fixtures and equipment | 254,300 | 31,668 | - | 285,968 |
| Total capital assets being depreciated | 3,162,100 | 43,819 | - | 3,205,919 |
| Less: accumulated depreciation | | | | |
| Land improvements | (2,259) | (2,299) | - | (4,558) |
| Buildings and improvements | (419,564) | (101,633) | - | (521,197) |
| Furniture, fixtures and equipment | (211,305) | (24,664) | - | (235,969) |
| Total accumulated depreciation | (633,128) | (128,596) | - | (761,724) |
| Capital assets, net | $ 2,948,591 | $ 21,228 | $ - | $ 2,969,819 |

## 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 $49,246 due within one year and $1,588,619 due in more than one year. The Academy made principal and interest payments of $46,273 and $67,451, respectively, during fiscal year 2018 on the loan to Self-Help New Markets XII, LLC.

**NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)**

The long term obligations have been restated as described in Note 3. A summary of the loan activity for fiscal year 2018 follows:

| | Restated Balance June 30, 2017 | Additions | Reductions | Balance June 30, 2018 | Due Within One Year |
|---|---|---|---|---|---|
| Net pension liability | $ 4,495,382 | $ - | $(1,186,166) | $ 3,309,216 | $ - |
| Net OPEB liability | 802,630 | - | (164,543) | 638,087 | - |
| Loans payable | 1,684,138 | - | (46,273) | 1,637,865 | 49,246 |
| Total long-term obligations | $ 6,982,150 | $ - | $(1,396,982) | $ 5,585,168 | $ 49,246 |

See Note 11 for detail on the net pension liability and Note 12 for detail on the net OPEB liability.

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

| Fiscal | Loan Payable | | |
|---|---|---|---|
| Year Ended | Principal | Interest | Total |
| 2019 | $ 49,246 | $ 64,478 | $ 113,724 |
| 2020 | 51,252 | 62,472 | 113,724 |
| 2021 | 53,341 | 60,383 | 113,724 |
| 2022 | 1,484,026 | 14,760 | 1,498,786 |
| Total | $ 1,637,865 | $ 202,093 | $ 1,839,958 |

**NOTE 8 - PURCHASED SERVICES**

For fiscal year ended June 30, 2018, purchased services expenses were as follows:

| | |
|---|---|
| Professional and technical services | $ 229,074 |
| Property services | 34,808 |
| Travel and meetings | 36,187 |
| Communications | 27,417 |
| Utilities | 76,283 |
| Contracted trade | 134,605 |
| Tuition | 46,462 |
| Transportation | 29,223 |
| Other | 966 |
| Total | $ 615,025 |

## 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 2018, the Academy contracted with Philadelphia Insurance Company and had the following insurance coverage:

| Coverage | Limits of Coverage |
|---|---|
| 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 |

## NOTE 9 - RISK MANAGEMENT - (Continued)

| Coverage | Limits of Coverage |
|---|---|
| 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, 2018, to provide fiscal, payroll and Comprehensive Continuous Planning consulting services. The Academy paid CSS $42,288 in service fees for fiscal year 2018.

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 2018 State foundation payments received by the Academy. The total amount due from the Academy for fiscal year 2018 was $28,389 all of which was paid prior to June 30, 2018.

## NOTE 11 - DEFINED BENEFIT PENSION PLANS

### A. Net Pension Liability

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

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

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 and postemployment benefits payable*.

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

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

**NOTE 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 on or after August 1, 2017 |
|---|---|---|
| Full benefits | Any age with 30 years of service credit | Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit |
| Actuarially reduced benefits | Age 60 with 5 years of service credit Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit |

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was $21,090 for fiscal year 2018.

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

Plan Description - Licensed teachers 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 website at www.strsoh.org.

**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. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

New members who choose the DC Plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member’s defined contribution account or the defined contribution portion of a member’s Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit 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 fiscal year 2018, 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 2018 contribution rates were equal to the statutory maximum rates.

## NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Academy’s contractually required contribution to STRS was $184,471 for fiscal year 2018.

### D. Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension

The net pension liability was measured as of June 30, 2017, 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 projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the net pension liability prior measurement date | 0.00565980% | 0.01219232% | |
| Proportion of the net pension liability current measurement date | 0.00543890% | 0.01256252% | |
| Change in proportionate share | -0.00022090% | 0.00037020% | |
| Proportionate share of the net pension liability | $ 324,962 | $ 2,984,254 | $ 3,309,216 |
| Pension expense | $ 7,345 | $ (1,045,769) | $ (1,038,424) |

At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred outflows of resources** | | | |
| Differences between expected and actual experience | $ 13,983 | $ 115,240 | $ 129,223 |
| Changes of assumptions | 16,804 | 652,689 | 669,493 |
| Difference between Academy contributions and proportionate share of contributions/ change in proportionate share | 31,658 | 314,919 | 346,577 |
| Academy contributions subsequent to the measurement date | 21,090 | 184,471 | 205,561 |
| Total deferred outflows of resources | $ 83,535 | $ 1,267,319 | $ 1,350,854 |

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred inflows of resources** | | | |
| Differences between expected and actual experience | $ - | $ 24,052 | $ 24,052 |
| Net difference between projected and actual earnings on pension plan investments | 1,542 | 98,486 | 100,028 |
| Difference between Academy contributions and proportionate share of contributions/ change in proportionate share | 10,778 | - | 10,778 |
| Total deferred inflows of resources | $ 12,320 | $ 122,538 | $ 134,858 |

$205,561 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal Year Ending June 30: | SERS | STRS | Total |
|---|---|---|---|
| 2019 | $ 32,075 | $ 240,823 | $ 272,898 |
| 2020 | 23,705 | 374,792 | 398,497 |
| 2021 | 1,919 | 271,410 | 273,329 |
| 2022 | (7,574) | 73,285 | 65,711 |
| Total | $ 50,125 | $ 960,310 | $ 1,010,435 |

**E. Actuarial Assumptions - SERS**

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

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

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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, 2017, 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 | 2.50 percent |
| Investment rate of return | 7.50 percent net of investments expense, including inflation |
| Actuarial cost method | Entry age normal (level percent of payroll) |

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

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

The most recent experience study was completed for the five year period ended June 30, 2015.

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 average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

## NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|---|---|---|
| Cash | 1.00 % | 0.50 % |
| US 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 | 10.00 | 3.00 |
| Total | 100.00 % | |

***Discount Rate -*** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment 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.

***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 | $450,963 | $324,962 | $219,411 |

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**F. Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

| | July 1, 2017 | July 1, 2016 |
|---|---|---|
| Inflation | 2.50 percent | 2.75 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment rate of return | 7.45 percent, net of investment expenses, including inflation | 7.75 percent, net of investment expenses, including inflation |
| Payroll increases | 3 percent | 3.5 percent |
| Cost-of-living adjustments (COLA) | 0.0 percent, effective July 1, 2017 | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, ,2013, or later, 2 percent COLA commences on fifth anniversary of retirement date. |

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return * |
|---|---|---|
| Domestic Equity | 28.00 % | 7.35 % |
| International Equity | 23.00 | 7.55 |
| Alternatives | 17.00 | 7.09 |
| Fixed Income | 21.00 | 3.00 |
| Real Estate | 10.00 | 6.00 |
| Liquidity Reserves | 1.00 | 2.25 |
| Total | 100.00 % | |

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

***Discount Rate*** **-** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

***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 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|---|---|---|
| Academy's proportionate share of the net pension liability | $4,277,826 | $2,984,254 | $1,894,613 |

## NOTE 12 - DEFINED BENEFIT OPEB PLANS

### A. Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Academy's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. 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 2018, the Academy's surcharge obligation was $482.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was $1,263 for fiscal year 2018. Of this amount, $482 is reported as pension and postemployment benefits payable.

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

**D. Net OPEB Liability, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB**

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the net OPEB liability prior measurement date | 0.00528288% | 0.01219232% | |
| Proportion of the net OPEB liability current measurement date | 0.00551260% | 0.01256252% | |
| Change in proportionate share | 0.00022972% | 0.00037020% | |
| Proportionate share of the net OPEB liability | $ 147,944 | $ 490,143 | $ 638,087 |
| OPEB expense | $ 10,407 | $ (146,737) | $ (136,330) |

At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred outflows of resources** | | | |
| Differences between expected and actual experience | $ - | $ 28,294 | $ 28,294 |
| Difference between Academy contributions and proportionate share of contributions/ change in proportionate share | 4,358 | 16,971 | 21,329 |
| Academy contributions subsequent to the measurement date | 1,263 | - | 1,263 |
| Total deferred outflows of resources | $ 5,621 | $ 45,265 | $ 50,886 |

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred inflows of resources** | | | |
| Net difference between projected and actual earnings on pension plan investments | $ 390 | $ 20,950 | $ 21,340 |
| Changes of assumptions | 14,039 | 39,483 | 53,522 |
| Total deferred inflows of resources | $ 14,429 | $ 60,433 | $ 74,862 |

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

$1,263 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ending June 30: | SERS | STRS | Total |
|---|---|---|---|
| 2019 | $ (3,606) | $ (4,273) | $ (7,879) |
| 2020 | (3,606) | (4,273) | (7,879) |
| 2021 | (2,763) | (4,273) | (7,036) |
| 2022 | (96) | (4,273) | (4,369) |
| 2023 | - | 962 | 962 |
| Thereafter | - | 962 | 962 |
| Total | $ (10,071) | $ (15,168) | $ (25,239) |

**E. Actuarial Assumptions - SERS**

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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.

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

| | |
|---|---|
| Wage inflation | 3.00 percent |
| Future salary increases, including inflation | 3.50 percent to 18.20 percent |
| Investment rate of return | 7.50 percent net of investments expense, including inflation |
| Municipal bond index rate: | |
| Measurement date | 3.56 percent |
| Prior measurement date | 2.92 percent |
| Single equivalent interest rate, net of plan investment expense, including price inflation: | |
| Measurement date | 3.63 percent |
| Prior measurement date | 2.98 percent |
| Medical trend assumption: | |
| Medicare | 5.50 to 5.00 percent |
| Pre-Medicare | 7.50 to 5.00 percent |

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

***Discount Rate*** **-** The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

***Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates*** **-** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

| | 1% Decrease (2.63%) | Current Discount Rate (3.63%) | 1% Increase (4.63%) |
|---|---|---|---|
| Academy's proportionate share of the net OPEB liability | $ 178,661 | $ 147,944 | $ 123,608 |

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

| | 1% Decrease (6.5 % decreasing to 4.0 %) | Current Trend Rate (7.5 % decreasing to 5.0 %) | 1% Increase (8.5 % decreasing to 6.0 %) |
|---|---|---|---|
| Academy's proportionate share of the net OPEB liability | $ 120,045 | $ 147,944 | $ 184,868 |

**F. Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

| | |
|---|---|
| Inflation | 2.50 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 |
| Investment rate of return | 7.45 percent, net of investment expenses, including inflation |
| Payroll increases | 3 percent |
| Cost-of-living adjustments (COLA) | 0.0 percent, effective July 1, 2017 |
| Blended discount rate of return | 4.13 percent |
| Health care cost trends | 6 to 11 percent initial, 4.5 percent ultimate |

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

**NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return * |
|---|---|---|
| Domestic Equity | 28.00 % | 7.35 % |
| International Equity | 23.00 | 7.55 |
| Alternatives | 17.00 | 7.09 |
| Fixed Income | 21.00 | 3.00 |
| Real Estate | 10.00 | 6.00 |
| Liquidity Reserves | 1.00 | 2.25 |
| Total | 100.00 % | |

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

***Discount Rate -*** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

## NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

***Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate* -** The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

| | 1% Decrease (3.13%) | Current Discount Rate (4.13%) | 1% Increase (5.13%) |
|---|---|---|---|
| Academy's proportionate share of the net OPEB liability | $658,009 | $490,143 | $357,474 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| Academy's proportionate share of the net OPEB liability | $340,530 | $490,143 | $687,051 |

## 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, 2018.

### 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 2018.

As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 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.

## NOTE 13 - CONTINGENCIES - (Continued)

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 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the Academy

### 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, 2018.

## 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, 2018, 2017 and 2016 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

## NOTE 15 – SIGNIFICANT SUBSEQUENT EVENTS

The Academy entered into an agreement with the Ohio Facilities Construction Commission to receive grant funding of $1,879,346 for the renovation of existing space and construction of a new building. The total cost of the project is estimated at $4,500,000. This agreement was signed on July 31, 2018.

The Academy entered into a construction loan for up to $1,600,000 on November 2, 2018 from Self-Help Credit Union at an interest rate of 6.21 percent. On December 1, 2021, the interest rate will adjust to be the greater of (i) the Swap Rate as of two Business Days prior to such date, plus 3.1 percent and (ii) 4.5 percent. The maturity date of the loan is December 31, 2028.

# REQUIRED SUPPLEMENTARY INFORMATION

**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 FIVE FISCAL YEARS

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Academy's proportion of the net pension liability | 0.00543890% | 0.00565980% | 0.00509210% | 0.00390600% | 0.00390600% |
| Academy's proportionate share of the net pension liability | $ 324,962 | $ 414,245 | $ 290,560 | $ 197,680 | $ 232,277 |
| Academy's covered payroll | $ 173,550 | $ 175,771 | $ 153,300 | $ 113,485 | $ 95,643 |
| Academy's proportionate share of the net pension liability as a percentage of its covered payroll | 187.24% | 235.67% | 189.54% | 174.19% | 242.86% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.50% | 62.98% | 69.16% | 71.70% | 65.52% |

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.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**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 FIVE FISCAL YEARS

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Academy's proportion of the net pension liabilit | 0.01256252% | 0.01219232% | 0.01117481% | 0.01072428% | 0.01072428% |
| Academy's proportionate share of the net pension liability | $ 2,984,254 | $ 4,081,137 | $ 3,088,391 | $ 2,608,516 | $ 3,107,247 |
| Academy's covered payroll | $ 1,371,429 | $ 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 payroll | 217.60% | 302.33% | 264.89% | 238.06% | 319.01% |
| Plan fiduciary net position as a percentage of the total pension liability | 75.30% | 66.80% | 72.10% | 74.70% | 69.30% |

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.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 21,090 | $ 24,297 | $ 24,608 | $ 20,205 |
| Contributions in relation to the contractually required contribution | (21,090) | (24,297) | (24,608) | (20,205) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Academy's covered payroll | $ 156,222 | $ 173,550 | $ 175,771 | $ 153,300 |
| Contributions as a percentage of covered payroll | 13.50% | 14.00% | 14.00% | 13.18% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 15,729 | $ | 13,237 | $ | 16,299 | $ | 28,167 | $ | 22,892 | $ | 13,733 |
| | (15,729) | | (13,237) | | (16,299) | | (28,167) | | (22,892) | | (13,733) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 113,485 | $ | 95,643 | $ | 121,182 | $ | 224,081 | $ | 169,069 | $ | 139,563 |
| | 13.86% | | 13.84% | | 13.45% | | 12.57% | | 13.54% | | 9.84% |

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 184,471 | $ 192,000 | $ 188,988 | $ 163,227 |
| Contributions in relation to the contractually required contribution | (184,471) | (192,000) | (188,988) | (163,227) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Academy's covered payroll | $ 1,317,650 | $ 1,371,429 | $ 1,349,914 | $ 1,165,907 |
| Contributions as a percentage of covered payroll | 14.00% | 14.00% | 14.00% | 14.00% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $ 142,445 | $ 126,624 | $ 122,351 | $ 97,651 | $ 98,703 | $ 102,882 |
| (142,445) | (126,624) | (122,351) | (97,651) | (98,703) | (102,882) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 1,095,731 | $ 974,031 | $ 941,162 | $ 751,162 | $ 759,254 | $ 791,400 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

| | **2018** | **2017** |
|---|---|---|
| Academy's proportion of the net OPEB liability | 0.00551260% | 0.00528288% |
| Academy's proportionate share of the net OPEB liability | $ 147,944 | $ 150,582 |
| Academy's covered payroll | $ 173,550 | $ 175,771 |
| Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll | 85.25% | 85.67% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 12.46% | 11.49% |

Note: Information prior to 2017 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.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

| | 2018 | 2017 |
|---|---|---|
| Academy's proportion of the net OPEB liability | 0.01256252% | 0.01219232% |
| Academy's proportionate share of the net OPEB liability | $ 490,143 | $ 652,048 |
| Academy's covered payroll | $ 1,371,429 | $ 1,349,914 |
| Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll | 35.74% | 48.30% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 47.10% | 37.30% |

Note: Information prior to 2017 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.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 1,263 | $ 2,974 | $ 731 | $ 2,860 |
| Contributions in relation to the contractually required contribution | (1,263) | (2,974) | (731) | (2,860) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Academy's covered payroll | $ 156,222 | $ 173,550 | $ 175,771 | $ 153,300 |
| Contributions as a percentage of covered payroll | 0.81% | 1.71% | 0.42% | 1.87% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 1,934 | $ | 2,050 | $ | 1,123 | $ | 6,613 | $ | 2,871 | $ | 7,738 |
| | (1,934) | | (2,050) | | (1,123) | | (6,613) | | (2,871) | | (7,738) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 113,485 | $ | 95,643 | $ | 121,182 | $ | 224,081 | $ | 169,069 | $ | 139,563 |
| | 1.70% | | 2.14% | | 0.93% | | 2.95% | | 1.70% | | 5.54% |

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ - | $ - | $ - | $ - |
| Contributions in relation to the contractually required contribution | - | - | - | - |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Academy's covered payroll | $ 1,317,650 | $ 1,371,429 | $ 1,349,914 | $ 1,165,907 |
| Contributions as a percentage of covered payroll | 0.00% | 0.00% | 0.00% | 0.00% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 11,134 | $ | 9,740 | $ | 9,412 | $ | 7,535 | $ | 7,593 | $ | 7,914 |
| | (11,134) | | (9,740) | | (9,412) | | (7,535) | | (7,593) | | (7,914) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 1,095,731 | $ | 974,031 | $ | 941,162 | $ | 751,162 | $ | 759,254 | $ | 791,400 |
| | 1.00% | | 1.00% | | 1.00% | | 1.00% | | 1.00% | | 1.00% |

PENSION

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changed in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

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, (g) mortality among disabled members 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 and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

*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. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

## OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### *SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) 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 the following: 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, (g) mortality among disabled members was updated to the following: 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 year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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**JAMES G. ZUPKA, C.P.A., INC.**
*Certified Public Accountants*
*5240 East 98th Street*
*Garfield Hts., Ohio 44125*

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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, 2018, 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 19, 2018, wherein we noted the Academy adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

## *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.

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

December 19, 2018

**ARTS AND COLLEGE PREPARATORY ACADEMY**
**FRANKLIN COUNTY, OHIO**
**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The prior audit report, as of June 30, 2017, 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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OHIO AUDITOR OF STATE
**KEITH FABER**

**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 26, 2019**