

UNITED PREPARATORY ACADEMY

FRANKLIN COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2018



OHIO AUDITOR OF STATE KEITH FABER



Board of Directors
United Preparatory Academy
671 West State Street
Columbus, OH 43215

We have reviewed the *Independent Auditor's Report* of the United Preparatory Academy, Franklin County, prepared by Charles E. Harris & Associates, 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 United Preparatory Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

March 11, 2019

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**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY
AUDIT REPORT
For the Year Ending June 30, 2018**

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

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the United Preparatory Academy, Franklin County, Ohio (the 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United Preparatory Academy, Franklin County, Ohio, as of June 30, 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 16 to the financial statements, during the year ended June 30, 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*. We did not modify our opinion regarding 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 liabilities, other postemployment liabilities, and pension and other postemployment contributions listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
December 28, 2018

UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

As management of United Preparatory Academy (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the School are as follows:

- Total net position of the School increased \$1.6 million during the fiscal year. Ending net position of the School was \$1.5 million compared with negative \$90,949 at June 30, 2017.
- Total assets increased \$1.2 million from the prior fiscal year and total liabilities decreased by \$749,465 during this same 12-month period.
- The School's operating loss for fiscal year 2018 was \$113,687.
- Total revenues increased by \$1.8 million.

Using this Annual Financial Report

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

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

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

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

UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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

Financial Analysis

Table 1 provides a summary of the School's net position at June 30, 2018.

Table 1
Net Position at Year End

	2018	2017
Assets:		
Current and Other Assets	\$ 1,481,896	\$ 311,682
Capital Assets, Net	818,037	824,135
Total Assets	2,299,933	1,135,817
 Deferred Outflows of Resources	 1,470,602	 1,644,500
 Liabilities:		
Current Liabilities	179,625	160,380
Noncurrent Liabilities		
Other Long Term Liabilities	-	87,218
Net Pension Liability	1,642,515	2,242,476
Net OPEB Liability	299,661	381,192
Total Liabilities	2,121,801	2,871,266
 Deferred Inflows of Resources	 99,037	 -
 Net Position:		
Net Investment in Capital Assets	818,037	736,917
Restricted	1,110,173	8,120
Unrestricted	(378,513)	(835,986)
Total Net Position	\$ 1,549,697	\$ (90,949)

UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The net pension liability (NPL) is the largest single liability reported by the School 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 School 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 School's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows 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 School'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 School 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.

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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.

In accordance with GASB 68 and GASB 75, the School's financial 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.

As a result of implementing GASB 75, the School 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 at June 30, 2017, from \$289,787 to negative \$90,949.

The net pension and net OPEB liabilities both decreased significantly in comparison with the prior fiscal year-end. These decreases are primarily the result of changes in benefit terms, changes in actuarial assumptions, and greater than expected returns on pension plan investments.

Current Assets increased \$1.2 million in comparison with the prior fiscal year. This increase is primarily the result of the School receiving a grant from the Ohio Facilities Construction Commission for a building project.

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UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Financial Analysis

Table 2 shows the change in net position for the fiscal year ended June 30, 2018.

Table 2
Changes in Net Position

	<u>2018</u>	<u>Restated 2017</u>
Operating Revenues:		
Foundation Revenues	\$ 1,878,278	\$ 1,187,509
Other Unrestricted Grants in Aid	49,129	44,179
Nonoperating Revenues:		
Federal and State Grants	382,616	306,434
Other Restricted Grants in Aid	223,335	145,627
Contributions and Donations	63,842	215,984
Other Non-Operating Revenue	240	-
Capital Contributions	1,086,378	-
Total Revenues	<u>3,683,818</u>	<u>1,899,733</u>
Expenses:		
Salaries and Wages	987,393	782,806
Fringe Benefits	(137,495)	633,361
Purchased Services	843,013	577,956
Materials and Supplies	213,233	169,642
Depreciation	60,597	48,429
Other	74,353	22,479
Interest	2,078	5,736
Total Expenses	<u>2,043,172</u>	<u>2,240,409</u>
Change in Net Position	1,640,646	(340,676)
Net Position, Beginning of Year	(90,949)	N/A
Net Position, End of the Year	<u>\$ 1,549,697</u>	<u>\$ (90,949)</u>

Foundation Revenue increased significantly in comparison with the prior fiscal year. The increase is the result of an increase in enrollment from 178 students in fiscal year 2017 to 264 students in fiscal year 2018.

Capital Contributions increased significantly in comparison with the prior fiscal year. This increase is the result of the School receiving a grant from the Ohio Facilities Construction Commission for a building project.

UNITED PREPARATORY ACADEMY
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(Unaudited)

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 functional expenses still include OPEB expense of \$456 computed under GASB 45. GASB 45 required recognizing pension 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 \$70,656. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 operating expenses under GASB 75	\$	2,041,094
Negative OPEB expense under GASB 75		70,656
2018 contractually required contribution		<u>1,942</u>
Adjusted 2018 operating expenses		2,113,692
Total 2017 operating expenses under GASB 45		<u>2,234,673</u>
Decrease in operating expenses not related to OPEB	\$	(120,981)

This decrease in operating expenses is primarily the result of an increase in salaries offset by a significant decrease in pension expense from \$555,971 in fiscal year 2017 to negative \$198,165 in fiscal year 2018. The increase in salaries is a result of an increase in enrollment. The decrease in pension expense is primarily the result of changes in benefit terms, changes in actuarial assumptions, and greater than expected returns on pension plan investments.

Capital Assets

At fiscal year-end, the School had \$818,037 invested in capital assets, a decrease of \$6,098 in comparison with the prior fiscal year-end. This decrease represents the amount in which current year depreciation of \$60,597 exceeded current year capital acquisitions of \$54,499. See Note 5 of the basic financial statements for additional details.

Debt

At fiscal year-end, the School had no debt outstanding, a decrease of \$87,218 in comparison with the prior fiscal year-end. This decrease represents principal payments made during the fiscal year. See Note 15 of the basic financial statements for additional details.

UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Current Financial Issues

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

Contacting the School

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

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

Assets:	
Current Assets	
Cash and Cash Equivalents	\$ 372,035
Intergovernmental Receivable	1,109,861
Total Current Assets	<u>1,481,896</u>
Noncurrent Assets	
Nondepreciable Capital Assets	79,529
Depreciable Capital Assets, Net	738,508
Total Noncurrent Assets	<u>818,037</u>
Total Assets	<u><u>2,299,933</u></u>
Deferred Outflows of Resources:	
Pension	1,443,380
OPEB	27,222
Total Deferred Outflows of Resources	<u>1,470,602</u>
Liabilities:	
Current Liabilities	
Accounts Payable	84,386
Accrued Wages and Benefits Payable	71,223
Intergovernmental Payable	24,016
Total Current Liabilities	<u>179,625</u>
Long-Term Liabilities:	
Net Pension Liability	1,642,515
Net OPEB Liability	299,661
Total Long-Term Liabilities	<u>1,942,176</u>
Total Liabilities	<u><u>2,121,801</u></u>
Deferred Inflows of Resources:	
Pension	63,338
OPEB	35,699
Total Deferred Inflows of Resources	<u>99,037</u>
Net Position:	
Net Investment in Capital Assets	818,037
Restricted	1,110,173
Unrestricted	(378,513)
Total Net Position	<u><u>\$ 1,549,697</u></u>

See accompanying notes to the basic financial statements.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Operating Revenues:	
Foundation Revenues	\$ 1,878,278
Other Unrestricted Grants in Aid	49,129
Total Operating Revenues	<u>1,927,407</u>
 Operating Expenses:	
Salaries	987,393
Fringe Benefits	(137,495)
Purchased Services	843,013
Materials and Supplies	213,233
Depreciation	60,597
Other	74,353
Total Operating Expenses	<u>2,041,094</u>
 Operating Loss	 <u>(113,687)</u>
 Non-Operating Revenues (Expenses):	
Federal and State Grants	382,616
Other Restricted Grants in Aid	223,335
Contributions and Donations	63,842
Other Non-Operating Revenue	240
Interest Expense	(2,078)
Total Non-Operating Revenues (Expenses)	<u>667,955</u>
 Income before Capital Contributions	 554,268
Capital Contributions	1,086,378
 Change in Net Position	 <u>1,640,646</u>
 Net Position Beginning of Year	 <u>(90,949)</u>
Net Position End of Year	<u><u>\$ 1,549,697</u></u>

See accompanying notes to the basic financial statements.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Cash Flows from Operating Activities:	
Received from Foundation Payments	\$ 1,822,904
Received from Other Unrestricted Grants in Aid	49,129
Payments to Suppliers for Goods and Services	(1,004,019)
Payments to Employees for Services and Benefits	(1,226,075)
Payments to Other	(74,353)
Net Cash Used for Operating Activities	<u>(432,414)</u>
Cash Flows from Noncapital Financing Activities:	
Received from Federal and State Grants	364,288
Received from Other Restricted Grants in Aid	223,335
Received from Contributions and Donations	63,842
Other Non-Operating Receipts	240
Net Cash Provided by Noncapital Financing Activities	<u>651,705</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(54,499)
Principal Paid on Loan	(87,218)
Interest Paid on Loan	(2,078)
Net Cash Used for Capital and Related Financing Activities	<u>(143,795)</u>
Net Increase in Cash and Cash Equivalents	75,496
Cash and Cash Equivalents at Beginning of Year	296,539
Cash and Cash Equivalents at End of Year	<u>\$ 372,035</u>

See accompanying notes to the basic financial statements.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

Operating Loss	\$ (113,687)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	60,597
Changes in Assets and Liabilities:	
Intergovernmental Receivable	9,988
Accounts Payable	52,479
Accrued Wages and Benefits Payable	15,944
Intergovernmental Payable	(49,178)
Net Pension Liability and Related Deferrals	(335,959)
Net OPEB Liability and Related Deferrals	(72,598)
Net Cash Used for Operating Activities	<u>\$ (432,414)</u>

See accompanying notes to the basic financial statements.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

The School operates under the direction of a nine-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 5 non-certified and 21 certificated full time teaching personnel who provide services to 264 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus

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

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

E. Capital Assets

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

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

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

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents

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

G. Prepaid Items

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

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pensions and other postemployment benefits (OPEB). These deferred outflows of resources related to pensions and OPEB are explained in Note 7 and Note 8.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. This deferred inflow of resources related to pension and OPEB are explained in Note 7 and Note 8.

I. Accrued Liabilities Payable

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

Accounts Payable – payments due for services or goods that were rendered or received during fiscal year 2018.

Accrued Wages and Benefits Payable – salary and benefit payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2018 contract.

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

J. Compensated Absences

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

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Net Position

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

L. Operating Revenues and Expenses

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

M. Estimates

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

N. Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/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.

NOTE 3 – DEPOSITS

At June 30, 2018, the carrying amount of the School's deposits was \$372,035 and the bank balance was \$401,167. Of the School's bank balance, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC), and the remaining balance was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental receivables arising from state and federal grants. All receivables are considered collectible in full. During fiscal year 2018, the School was awarded \$1,086,378 from the Ohio Facilities Construction Commission to renovate existing facilities. At June 30, 2018, the entire amount was recorded as a receivable.

**UNITED PREPARATORY ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 65,009	\$ -	\$ -	\$ 65,009
Construction in Progress	-	14,520	-	14,520
Total Nondepreciable Capital Assets	65,009	14,520	-	79,529
Depreciable Capital Assets				
Buildings and Improvement	748,856	-	-	748,856
Furniture, Fixtures, and Equipment	100,593	39,979	-	140,572
Total Depreciable Capital Assets	849,449	39,979	-	889,428
Less Accumulated Depreciation:				
Buildings and Improvement	(63,007)	(29,953)	-	(92,960)
Furniture, Fixtures, and Equipment	(27,316)	(30,644)	-	(57,960)
Total Accumulated Depreciation	(90,323)	(60,597)	-	(150,920)
Depreciable Capital Assets, Net	759,126	(20,618)	-	738,508
Total Capital Assets, Net	\$ 824,135	\$ (6,098)	\$ -	\$ 818,037

NOTE 6 – RISK MANAGEMENT

A. Property and Liability Insurance

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the School contracted with Argo Group US, Inc. for general liability, property insurance, educational errors and omissions insurance. Coverages are as follows:

Building Contents (\$1,000 deductible)	\$ 3,837,500
Educators Legal Liability (\$2,500 deductible)	1,000,000
Automobile Liability	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded commercial coverage in the past year. There have been no significant reductions of coverage from the prior year.

**UNITED PREPARATORY ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 6 – RISK MANAGEMENT (continued)

B. Worker’s Compensation

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	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 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

On each anniversary of the initial retirement, the allowance of all retirees and survivors are increased by the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. This cost-of-living adjustment (COLA) shall not be less than 0% nor greater than 2.5%. COLA’s have been suspended for calendar years 2018, 2019, and 2020.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.50 percent and .50 percent was allocated to the Health Care Fund.

The School’s contractually required pension contribution to SERS was \$11,920 for fiscal year 2018. Of this amount, \$1,477 is reported as an intergovernmental payable.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - State Teachers Retirement System (STRS)

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

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 is 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 year 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 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. 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.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was \$125,874 for fiscal year 2018. Of this amount, \$10,394 is reported as an intergovernmental payable.

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

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

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability - Current Measurement Period	\$113,019	\$1,529,496	\$1,642,515
Proportion of the Net Pension Liability - Current Measurement Period	0.0018916%	0.00643857%	
Proportion of the Net Pension Liability - Prior Measurement Period	0.0012680%	0.00642210%	
Change in Proportionate Share	0.0006236%	0.00001647%	
 Pension Expense - Current Measurement Period	 \$24,295	 (\$222,460)	 (\$198,165)

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 4,862	\$ 59,063	\$ 63,925
Changes of assumptions	5,844	334,518	340,362
Changes in proportion and differences between School contributions and proportionate share of contributions	51,258	850,041	901,299
School contributions subsequent to the measurement date	<u>11,920</u>	<u>125,874</u>	<u>137,794</u>
Total Deferred Outflows of Resources	<u>\$ 73,884</u>	<u>\$ 1,369,496</u>	<u>\$ 1,443,380</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 12,326	\$ 12,326
Net difference between projected and actual earnings on pension plan investments	<u>539</u>	<u>50,473</u>	<u>51,012</u>
Total Deferred Inflows of Resources	<u>\$ 539</u>	<u>\$ 62,799</u>	<u>\$ 63,338</u>

\$137,794 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$32,865	\$436,113	\$468,978
2020	21,775	625,131	646,906
2021	9,420	91,887	101,307
2022	<u>(2,635)</u>	<u>27,692</u>	<u>25,057</u>
Total	<u>\$61,425</u>	<u>\$1,180,823</u>	<u>\$1,242,248</u>

**UNITED PREPARATORY ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.0 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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% of male rates, and 110% of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

**UNITED PREPARATORY ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US 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	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 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.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School's proportionate share of the net pension liability	\$156,841	\$113,019	\$76,309

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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	3.00 percent
Cost-of-Living Adjustments (COLA)	0 percent effective July 1, 2017

Mortality rates were 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.

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.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

*The 10-Year annualized 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 Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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. 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 School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 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%)
School's proportionate share of the net pension liability	\$2,192,481	\$1,529,496	\$971,031

Changes Between Measurement Date and Report Date The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and 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. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes Since the Prior Measurement Date Effective July 1, 2017, the Cost of Living Adjustment was reduced to zero.

NOTE 8 – DEFINED BENEFIT OPEB PLANS

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 8 – DEFINED BENEFIT OPEB PLANS (continued)

The net OPEB liability represents the School'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 School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which OPEB are financed; however, the School 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 *intergovernmental payable*.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School 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.

**UNITED PREPARATORY ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 8 – 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 School's surcharge obligation was \$1,500. 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 School's contractually required contribution to SERS was \$1,942 for fiscal year 2018. Of this amount, \$1,500 is reported as an intergovernmental payable.

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.

**UNITED PREPARATORY ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 8 – DEFINED BENEFIT OPEB PLANS (continued)

Net OPEB Liability, OPEB Expense, and 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 School's proportion of the net OPEB liability was based on the School'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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Current Measurement Date	0.0018054%	0.00643857%	
Proportion of the Net OPEB Liability			
Prior Measurement Date	<u>0.0013239%</u>	<u>0.00642210%</u>	
Change in Proportionate Share	<u>0.0004815%</u>	<u>0.00001647%</u>	
Proportionate Share of the Net OPEB Liability	\$48,452	\$251,209	\$299,661
OPEB Expense	\$5,823	(\$76,479)	(\$70,656)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$14,501	\$14,501
Difference between School contributions and proportionate share of contributions	10,075	704	10,779
School contributions subsequent to the measurement date	<u>1,942</u>	<u>-</u>	<u>1,942</u>
Total Deferred Outflows of Resources	<u>\$12,017</u>	<u>\$15,205</u>	<u>\$27,222</u>
Deferred Inflows of Resources			
Changes of assumptions	\$4,598	\$20,235	\$24,833
Net difference between projected and actual earnings on OPEB plan investments	<u>128</u>	<u>10,738</u>	<u>10,866</u>
Total Deferred Inflows of Resources	<u>\$4,726</u>	<u>\$30,973</u>	<u>\$35,699</u>

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 8 – DEFINED BENEFIT OPEB PLANS (continued)

\$1,942 reported as deferred outflows of resources related to OPEB resulting from School 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:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$1,952	(\$3,942)	(\$1,990)
2020	1,952	(3,942)	(1,990)
2021	1,477	(3,942)	(2,465)
2022	(32)	(3,942)	(3,974)
Total	\$5,349	(\$15,768)	(\$10,419)

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.

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

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 8 – DEFINED BENEFIT OPEB PLANS (continued)

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.

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:

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 8 – DEFINED BENEFIT OPEB PLANS (continued)

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

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 School'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.

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
School's proportionate share of the net OPEB liability	\$58,512	\$48,452	\$40,482

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 8 – DEFINED BENEFIT OPEB PLANS (continued)

	1% Decrease (6.5% decreasing to 4.0 percent)	Current Trend Rate (7.5% decreasing to 5.0 percent)	1% Increase (8.5% decreasing to 6.0 percent)
School's proportionate share of the net OPEB liability	\$39,315	\$48,452	\$60,545

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.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 8 – 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 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 annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent 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 actual 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 Ohio 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.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 8 – DEFINED BENEFIT OPEB PLANS (continued)

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.

Sensitivity of the School'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%)
School's proportionate share of the net OPEB liability	\$337,244	\$251,209	\$183,213

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB liability	\$174,529	\$251,209	\$352,129

NOTE 9 – EMPLOYEE BENEFITS

Insurance Benefits

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

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 10 – PURCHASED SERVICES

During the fiscal year ended June 30, 2018, other purchased service expenses for services rendered by various vendors were as follows:

Other Professional and Technical Services	\$ 567,266
Garbage Removal and Cleaning	4,022
Repairs and Maintenance Services	59,719
Rentals	1,050
Utilities	22,961
Postage	252
Contracted Food Services	183,718
Tuition Payments	835
Third Party Administrator	350
Other Transportation	2,840
Total	<u><u>\$ 843,013</u></u>

NOTE 11 – OPERATING LEASES

The School has entered into a lease agreement with ComDoc for the lease of two copiers with accessories. The term of the lease was 60 months and commenced on June 24, 2014, with required payments of \$585 per month. Lease payments during the fiscal year totaled \$8,160.

The School has entered into a lease agreement with ComDoc for the lease of a copier with accessories. The term of the lease was 60 months and commenced on February 8, 2016, with required payments of \$430 per month. Lease payments during the fiscal year totaled \$5,160.

NOTE 12 – CONTRACTED FISCAL SERVICES

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

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

The School made \$43,298 in payments for services during fiscal year 2018.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

(Continued)

NOTE 13 - SPONSOR

The School has contracted with Thomas B. Fordham Foundation to provide sponsorship services. The School pays the Thomas B. Fordham Foundation 2 percent of monthly foundation payments. The total fees paid under this contract for fiscal year 2018 totaled \$32,211. The sponsor provides oversight, monitoring, treasury and technical assistance for the School.

NOTE 14 - CONTINGENCIES

a. Grants

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2018, if applicable, cannot be determined at this time. However, in the opinion of management, and such disallowed claims will not have a material adverse effect on the overall financial position of the School at fiscal year-end.

b. Foundation Funding

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 School for fiscal year 2018 and determined the School was overpaid by \$9,787. This amount is reported as intergovernmental payable on the statement of net position.

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.

In addition, the School's contract with their Sponsor requires 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 this contract, is not determinable. Management believes this may result in either an additional liability of, or receivable to, the School.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 15 – LONG TERM OBLIGATIONS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Nationwide Loan	\$ 87,218	\$ -	\$ (87,218)	\$ -	\$ -
Net Pension Liability					
SERS	92,806	20,213	-	113,019	-
STRS	<u>2,149,670</u>	<u>-</u>	<u>(620,174)</u>	<u>1,529,496</u>	<u>-</u>
Total Net Pension Liability	<u>2,242,476</u>	<u>20,213</u>	<u>(620,174)</u>	<u>1,642,515</u>	<u>-</u>
Net OPEB Liability					
SERS	37,736	10,716	-	48,452	-
STRS	<u>343,456</u>	<u>-</u>	<u>(92,247)</u>	<u>251,209</u>	<u>-</u>
Total Net OPEB Liability	<u>381,192</u>	<u>10,716</u>	<u>(92,247)</u>	<u>299,661</u>	<u>-</u>
Total	<u>\$ 2,710,886</u>	<u>\$ 30,929</u>	<u>\$ (799,639)</u>	<u>\$ 1,942,176</u>	<u>\$ -</u>

In March 2016, the School opened a line of credit for \$150,000 with Nationwide Bank. During fiscal year 2016, the School received \$135,218. The loan carries an interest rate of 4.75 percent and was paid in full during the fiscal year.

NOTE 16 – RESTRICTED NET POSITION

The nature of the School’s net position restrictions at fiscal year-end are as follows:

<u>Description</u>	<u>Amount</u>
Food Service Program	\$30,403
Ohio Facilities Construction Commission Grant	1,071,858
Title II-A Improving Teacher Quality	<u>7,912</u>
	<u>\$1,110,173</u>

NOTE 17 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2018, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and related guidance from GASB Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Continued)

NOTE 17 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the School’s fiscal year 2018 financial statements; however, there was no effect on beginning net position.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	\$	289,787
Adjustments:		
Net OPEB Liability		(381,192)
Deferred Outflow- Payments Subsequent to Measurement Date		456
Restated Net Position June 30, 2017	\$	(90,949)

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

Other GASB Statements implemented in fiscal year 2018 are as follows:

GASB Statement No. 81 “Irrevocable Split-Interest Agreements” improves 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 this statement did not have an effect on the financial statements of the School.

GASB Statement No. 86 “Certain Debt Extinguishment Issues” 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 this statement did not have an effect on the financial statements of the School.

REQUIRED SUPPLEMENTARY INFORMATION

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

LAST THREE FISCAL YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
School's Proportion of the Net Pension Liability	0.0018916%	0.0012680%	0.0009965%
School's Proportionate Share of the Net Pension Liability	\$ 113,019	\$ 92,806	\$ 56,861
School's Covered Payroll	\$ 63,419	\$ 39,376	\$ 30,000
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	178.21%	235.69%	189.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%

(1) Information prior to 2016 is not available.

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

See accompanying notes to the required supplementary information

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

LAST THREE FISCAL YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
School's Proportion of the Net Pension Liability	0.00643857%	0.00642210%	0.00442034%
School's Proportionate Share of the Net Pension Liability	\$ 1,529,496	\$ 2,149,670	\$ 1,221,653
School's Covered Payroll	\$ 719,387	\$ 707,081	\$ 473,977
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	212.61%	304.02%	257.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%

(1) Information prior to 2016 is not available.

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

See accompanying notes to the required supplementary information

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 11,920	\$ 8,879	\$ 5,513	\$ 3,954
Contributions in Relation to the Contractually Required Contribution	<u>\$ 11,920</u>	<u>\$ 8,879</u>	<u>\$ 5,513</u>	<u>\$ 3,954</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 88,294	\$ 63,419	\$ 39,376	\$ 30,000
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%

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

See accompanying notes to the required supplementary information

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 125,874	\$ 100,714	\$ 98,991	\$ 66,357
Contributions in Relation to the Contractually Required Contribution	<u>\$ 125,874</u>	<u>\$ 100,714</u>	<u>\$ 98,991</u>	<u>\$ 66,357</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 899,104	\$ 719,387	\$ 707,081	\$ 473,977
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

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

See accompanying notes to the required supplementary information

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

LAST TWO FISCAL YEARS (1)

	<u>2018</u>	<u>2017</u>
School's Proportion of the Net OPEB Liability	0.0018054%	0.0013239%
School's Proportionate Share of the Net OPEB Liability	\$ 48,452	\$ 37,736
School's Covered Payroll	\$ 63,419	\$ 39,376
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.40%	95.84%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

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

LAST TWO FISCAL YEARS (1)

	2018	2017
School's Proportion of the Net OPEB Liability	0.00643857%	0.00642210%
School's Proportionate Share of the Net OPEB Liability	\$ 251,209	\$ 343,456
School's Covered Payroll	\$ 719,387	\$ 707,081
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	34.92%	48.57%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF SCHOOL'S OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (2)	\$ 1,942	\$ 456	\$ -	\$ 246
Contributions in Relation to the Contractually Required Contribution	<u>\$ 1,942</u>	<u>\$ 456</u>	<u>\$ -</u>	<u>\$ 246</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 88,294	\$ 63,419	\$ 39,376	\$ 30,000
OPEB Contributions as a Percentage of Covered Payroll (2)	2.20%	0.72%	0.00%	0.82%

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

(2) Includes Surcharge

See accompanying notes to the required supplementary information

**UNITED PREPARATORY ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF SCHOOL'S OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Contractually Required Contribution	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 899,104	\$ 719,387	\$ 707,081	\$ 473,977
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

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

See accompanying notes to the required supplementary information

United Preparatory Academy
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Net Pension Liability

School Employees Retirement System

Changes in benefit terms:

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00% to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in assumptions:

There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for fiscal year 2018.

State Teachers Retirement System

Changes in benefit terms:

For fiscal year 2018, the COLA was reduced to zero.

Changes in assumptions:

For fiscal year 2018, the STRS Board adopted several assumption changes, including changes to:

- Inflation assumption lowered from 2.75% to 2.50%;
- Investment return assumption lowered from 7.75% to 7.45%;
- Total salary increases rates lowered by decreasing merit component of the individual salary increases, as well as by 0.25% due to lower inflation;
- Payroll growth assumption lowered to 3.00%;
- Updated the healthy and disabled mortality assumption to the “RP-2014” mortality tables with generational improvement scale MP-2016; and
- Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

United Preparatory Academy
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Net OPEB Liability

School Employees Retirement System

Changes in benefit terms:

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

Changes in Assumptions:

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

State Teachers Retirement System

Changes in benefit terms:

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

Changes in Assumptions:

For fiscal year 2018, 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.

Also for fiscal year 2018, 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.

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

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

United Preparatory Academy
Franklin County
1469 East Main Street
Columbus, Ohio 43205

To the Board of Directors:

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 United 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 28, 2018. 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 opinions 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, 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.



Charles E. Harris & Associates, Inc.
December 28, 2018

OHIO AUDITOR OF STATE KEITH FABER



UNITED PREPARATORY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 26, 2019**