

CITY PREP ACADEMY
FINAL AUDIT
FRANKLIN COUNTY, OHIO
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016



Dave Yost • Auditor of State

Board of Directors
City PREP Academy
2800 S. Hamilton Road
Columbus, Ohio 43232

We have reviewed the *Independent Auditor's Report* of the City PREP Academy, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through September 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

July 26, 2017

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**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
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January 26, 2017

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the City PREP Academy, Franklin County, Ohio (the "School") as of and for the fifteen month period ended September 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America. This responsibility includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Basis for Adverse Opinion

As described in Note 2 of the financial statements, the School prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows of the City PREP Academy as of and for the fifteen month period ended September 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 12, the School Board ceased operations as of June 30, 2016. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

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

Rea & Associates, Inc.

Dublin, Ohio

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCE
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016**

Operating Cash Receipts

State Aid	\$	659,286
Casino Aid		3,669
Facilities Aid		9,994
		9,994

Total Operating Cash Receipts		672,949
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Operating Cash Disbursements

Purchased Services: Management Fees		502,689
Purchased Services: Grant Programs		167,694
Sponsor Fees		14,849
Board of Education		7,687
Auditing and Accounting		27,540
Insurance		5,037
Advertising		969
Other Services		5
		5

Total Operating Cash Disbursements		726,470
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Excess of Cash Disbursements over Cash Receipts		(53,521)
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Non-Operating Cash Receipts

Grants		148,816
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Net Change in Fund Cash Balance		95,295
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Fund Cash Balance, July 1, 2015, restated (see Note 11)		424
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Fund Cash Balance, September 30, 2016		\$ 95,719
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See accompanying notes to the basic financial statements

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**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

City Prep Academy (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with eSchool Consultants, LLC (ESCHOOL) for most functions (see Note 5). Effective June 30, 2016, the Board effectively closed the School.

The School operates under a self-appointing six-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by ESCHOOL. The facility is staffed with teaching personnel employed by ESCHOOL, who provide services to 68 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

Although required by Ohio Administrative Code 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the School has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred.

B. BUDGETARY PROCESS

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

C. CASH AND CASH EQUIVALENTS

Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. CAPITAL ASSETS AND DEPRECIATION

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

E. PENSIONS

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

F. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For the fifteen month period ended September 30, 2016, the School has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments and GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the Scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement no. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and address the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for and external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

3. CASH

Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

State statutes classify monies held by the School into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Directors has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts.

Protection of School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in these divisions are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio and STAR Plus);

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

3. CASH (continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed 40% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At September 30, 2016, the bank balance was \$95,719 and carrying value of the School's deposits was \$95,719. \$0 of the School's bank balance of was exposed to custodial credit risk as discussed below, while \$95,719 was covered by Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

4. RISK MANAGEMENT

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

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

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

5. AGREEMENT WITH ESCHOOL

Effective July 1, 2014, the School entered into a one-year Management Agreement (Agreement) with ESCHOOL, which is an educational consulting and management company. The agreement automatically reviews for successive one year terms unless either party exercises a non-renewal clause 60 days prior to June 30 of the following year. ESCHOOL is responsible and accountable to the Board for the administration, operation and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. The School had purchased service expenses to ESCHOOL of \$670,383 for the fifteen month period ended September 30, 2016. Significant provisions of the Agreement are as follows:

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

5. AGREEMENT WITH ESCHOOL (continued)

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

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

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

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

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

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

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

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

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

6. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

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 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.

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 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.

B. 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 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.

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

6. DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School's contractually required contribution to SERS was \$18,696 for the fifteen month period ended September 30, 2016.

C. 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 will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

6. DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased 1% July 1, 2014, and will be increased 1% each year until it reaches 14% on July 1, 2016. For the pension system fiscal year ended June 30, 2016, plan members were required to contribute 13% of their annual covered salary. The School was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The period ended September 30, 2016, contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$10,294 for the fifteen month period ended September 30, 2016.

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. 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.

The School's contributions for health care (including surcharge) for the fifteen month period ended September 30, 2016, was \$634.

B. State Teachers Retirement System

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

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

7. POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System (continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fifteen month period ended September 30, 2016 was \$0.

8. MANAGEMENT COMPANY EXPENSES

For the school year ended June 30, 2016, eSchool Consultants, LLC and its affiliates incurred the following expenses on behalf of the School. Effective June 30, 2016, the School closed and no material activity subsequent to June 30, 2016 was paid for on the School's behalf.

Expense	<u>2016</u>
Direct Expenses:	
Salaries & Wages	\$ 513,357
Employees' benefits	57,921
Professional & technical services	14,608
Property services	206,554
Travel	976
Communications	15,329
Utilities	41,482
Transportation	70,236
Books, periodicals & films	1,359
Food & related supplies	33,071
Other supplies	15,655
Other direct costs	57,849
Indirect Expenses:	
Overhead	<u>123,780</u>
Total Expenses	<u><u>\$1,152,177</u></u>

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

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2015 THROUGH SEPTEMBER 30, 2016
(continued)**

9. CONTINGENCIES

A. GRANTS

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

B. FULL TIME EQUIVALENCY

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 and 2015 Foundation funding for the school; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

10. SPONSORSHIP FEES

The School contracts with Buckeye Community Hope Foundation (BCHF) to be its sponsor (beginning April 2005). The contract states "...the annual sponsorship fee to be paid to Buckeye Community Hope Foundation be set at 3% of the State's annual School Foundation support..." The Sponsor is to provide oversight, monitoring, and technical assistance for the School. Amount paid to BCHF for the fifteen month period ended September 30, 2016, was \$14,849.

11. RESTATEMENT OF NET POSITION / FUND CASH BALANCES

Net position / Fund Cash Balances has been restated at June 30, 2015, to change from generally accepted accounting principles to the regulatory basis of accounting, as allowed by Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). The adjustments had the following effect on net position as previously reported:

Net Position, June 30, 2015	\$ 42,949
Adjustments:	
Removal of Assets / Deferred Outflows	(138,714)
Removal of Liabilities	96,189
Restated Beginning Fund Cash Balance, July 1, 2015	\$ 424

12. SUBSEQUENT EVENTS / SCHOOL CLOSURE

Effective June 30, 2016, the school Board requested and was granted approval by the Ohio Department of Education ("ODE") to close. The school has followed the closing procedures prescribed by the ODE. Those procedures included official notification to ODE, retirement systems, the students, and the community of the School's decision to close. Once all costs and liabilities are known, the School will pay its final costs and any residual cash balances remaining will be remitted to the ODE per Ohio Revised Code 3314.074, and the School will be closed. As of January 26, 2017, the balances for cash and payables are \$101,205 and \$114,332, respectively.

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January 26, 2017

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the City PREP Academy, Franklin County, Ohio (the School) as of and for the fifteen month period ended September 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated January 26, 2017, wherein we issued an adverse opinion on the School's accompanying financial statements because they do not present fairly the financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America, and we also noted that the School ceased operations effective June 30, 2016.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as item 2016-001.

School's Response to Findings

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Dublin, Ohio

**CITY PREP ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number: 2016-001 – **Material Noncompliance**

Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form of the report, the public office shall submit its report to the form utilized by public office. Ohio Administrative Code Section 117- 2-13 further clarifies the requirements of Ohio Rev. Code 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. GASB Statement 34, “Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments” requires the School’s basic financial statements and required supplementary information (RSI) consist of the following:

- Management’s Discussion and Analysis – Providing management’s analytical overview of the School District’s financial activities.
- Basic Financial Statements – The basic financial statements will consist of a statement of net position, statement of revenues, expenses, and changes in net position, as well as a statement of cash flows, prepared on the economic resources measurement focus and the accrual basis of accounting. These statements will report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, and gains and losses of the School.
- Required Supplementary Information – Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions.

Condition: The School did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B).

Cause: For fifteen month period ended September 30, 2016, the School prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omits assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and net position, and disclosures that, while material, cannot be determined at this time.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the School may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Recommendation: We recommend the School review the standards and ensure preparation of its financial statements in accordance with AICPA’s *Audit and Accounting Guide Audits of State and Local Governments*. We also recommend the School prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Management’s Response: Due to the School closing and not having sufficient resources available to complete the required GAAP filing, the School elected to prepared cash-basis statements only. Since the school is closed, there will be no corrective action plan prepared.

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Dave Yost • Auditor of State

CITY 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
AUGUST 8, 2017**