

**Cornerstone Academy
Franklin County, Ohio**

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



Dave Yost • Auditor of State

Board of Education
Cornerstone Academy
6025 East Walnut Street
Westerville, Ohio 43081

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

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

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

Dave Yost
Auditor of State

February 22, 2018

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**CORNERSTONE ACADEMY
FRANKLIN COUNTY, OHIO**

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December 26, 2017

To the Board of Trustees
Cornerstone Academy
Franklin County, Ohio
6025 East Walnut Street
Westerville, Ohio 43081

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 15 to the financial statements, the Academy has previously suffered recurring losses from operations and has a net position deficit of \$5,607,736 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability and related accruals totaling \$4,035,441. Note 15 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, the *Schedule of the Academy's Proportionate Share of Net Pension Liability*, and *Schedule of the Academy's Contributions* on pages 3-8, 35-36, and 37-38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

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

Kea & Associates, Inc.

Cambridge, Ohio

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

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

HIGHLIGHTS

The Academy finished its tenth year of operations since emerging from a temporary voluntary suspension of operations during fiscal year 2007 serving Kindergarten through eighth grade. The Academy suspended operations during the period October 1, 2006 through June 30, 2007 and resumed operations July 1, 2007. Enrollment varied during fiscal year 2017 but ended with 689 students.

Key highlights for fiscal year 2017 are as follows:

- Net position increased \$106,150 as compared to an increase of \$1,130,106 in fiscal year 2016.
- Total revenue decreased from \$6,365,524 in fiscal year 2016 to \$5,917,340 in fiscal year 2017.
- Operating expenses, not including interest increased from \$4,350,627 in fiscal year 2016 to \$4,764,023 in fiscal year 2017.
- The Academy did a bond refunding in July 2016 in order to take advantage of better interest rates.

OVERVIEW OF FINANCIAL STATEMENTS

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from the governmental-wide financial statements is included in the discussion and analysis. The following table represents the Academy's statement of net position at June 30, 2017 and 2016:

**Table 1
Net Position**

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets:		
Cash and Cash Equivalents	\$ 1,579,188	\$ 469,968
Escrow Assets	396,324	576,903
Accounts Receivable	4,346	-
Intergovernmental Receivable	45,593	60,898
Prepaid Expense	40,318	23,106
Total currents assets	<u>2,065,769</u>	<u>1,130,876</u>
Noncurrent assets:		
Capital Assets, net of Accumulated Depreciation	7,051,321	7,154,098
Bond Reserve	817,185	836,150
Total noncurrent assets	<u>7,868,506</u>	<u>7,990,248</u>
Total assets	9,934,275	9,121,124
Deferred Outflows of Resources:		
Unamortized Deferred Charges on Bond Refinancing	364,410	-
Pension (STRS & SERS)	1,363,955	747,220
Total Deferred Outflows of Resources:	<u>1,728,365</u>	<u>747,220</u>
Liabilities:		
Current liabilities:		
Accounts Payable, Trade	20,113	30,888
Accounts Payable, Related Party	228,813	176,929
Accrued Interest Payable	308,712	404,600
Accrued Expenses	67,220	60,029
Total current liabilities	<u>624,858</u>	<u>672,446</u>
Noncurrent liabilities:		
Net Pension Liability	5,399,396	4,221,297
Noncurrent Portion of Long-term Debt	11,246,122	10,446,920
Total noncurrent liabilities	<u>16,645,518</u>	<u>14,668,217</u>
Total liabilities	17,270,376	15,340,663
Deferred Inflows of Resources	<u>-</u>	<u>241,567</u>
Net Position		
Net Investment in Capital Assets	(2,264,692)	(1,803,027)
Restricted Net Position	137,906	417,817
Unrestricted Net Position	(3,480,950)	(4,328,676)
Total Net Position	<u>\$ (5,607,736)</u>	<u>\$ (5,713,886)</u>

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Results of fiscal year 2017 indicate an ending net deficit position of (\$5,607,736), a positive net position increase of \$106,150 from fiscal year end 2016. While the change in net position was positive, it was mitigated by the impact of accruals required under GASB 68 and costs associated with the bond refinancing. Operationally, the Academy added positive cash flow of \$1,109,220 in fiscal year 2017 over the prior year. The fiscal year increases in both cash and net position were the result of increased enrollment and more efficient operations.

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

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

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

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

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

on the accrual basis of accounting. Current year changes in deferred outflows/ inflows of resources and the net pension liability are the result of changes in accruals related to GASB 68.

The following table shows the changes in net position for the following fiscal periods:

**Table 2
Change in Net Position**

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
State Aid	\$ 5,107,362	\$ 4,658,984
Charge for Services	155,583	231,756
Miscellaneous	20,434	1,459
Total Operating Revenues	<u>5,283,379</u>	<u>4,892,199</u>
Operating Expenses:		
Purchased Services	4,460,905	3,759,807
Depreciation	135,070	298,397
Supplies	152,934	143,426
Other Operating Expense	15,114	148,997
Total Operating Expenses	<u>4,764,023</u>	<u>4,350,627</u>
Operating Income	519,356	541,572
Non-Operating Revenues and Expenses:		
Federal and State Restricted Grants	633,961	589,937
Bond Issuance Costs	(444,469)	-
Interest Expense	(602,698)	(884,791)
Debt Forgiveness	-	883,388
Net Nonoperating Revenues and Expenses	<u>(413,206)</u>	<u>588,534</u>
Change in Net Position	106,150	1,130,106
Net Position Beginning of Year	<u>(5,713,886)</u>	<u>(6,843,992)</u>
Net Position End of Year	<u>\$ (5,607,736)</u>	<u>\$ (5,713,886)</u>

At the onset of planning for the opening of the Academy, management and the board calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public Schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain management services, other operating expenses and invoices for payroll of Academy staff.

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

State Aid increased in 2017 due to increased enrollment. Non-Operating Revenues decreased in 2017 due to prior year recognition of debt forgiveness and the recognition of bond issuance costs in the current year. Total operating expenses have increased \$413,396 in fiscal year 2017 as compared to fiscal year 2016. As previously indicated, the Academy's enrollment has increased to 689 students and with that the expense went up to ensure proper care for those extra students. Pension expense under GASB 68 also increased. The student growth is expected to continue and help the Academy achieve an operating surplus in fiscal year 2018.

BUDGET

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

CAPITAL ASSETS

At June 30, 2017, the Academy had \$7,051,321 (net of accumulated depreciation) invested in capital assets. The following table summarizes Capital Asset activity for the fiscal year ended:

Capital Assets at June 30 (Net of Depreciation)

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Land	\$1,018,700	\$1,018,700	\$0
Buildings & Improvements	5,987,662	6,091,340	(103,678)
Leasehold Improvements	11,814	14,133	(2,319)
Computer Technology	22,819	16,716	6,103
Furniture & Equipment	10,326	13,209	(2,883)
	<u>\$7,051,321</u>	<u>\$7,154,098</u>	<u>(\$102,777)</u>

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

DEBT

At June 30, 2017, the Academy had total debt of \$11,134,559 which included two separate debt instruments:

One was the \$10,640,000 bond offering (listed net of premium) of which no principal payments due within one year. This bond debt was newly issued in July 2016 after refunding the 2012 bonds in order to take advantage of lower interest rates.

The other debt is the \$494,559 related to a \$500,000 promissory note executed in 2015 payable to Accel Schools, LLC., to finance outstanding invoices for services and/or reimbursable expenses over a multi-year term at a fixed interest rate of 4.0%. No principal is due under the note unless the Academy is operating at a surplus.

For further information regarding the Academy's debt, refer to Note 6 to the basic financial statements.

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

OPERATIONS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through eighth grade. The Academy is independent of any Academy district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact the Academy's Fiscal Officer, C. David Massa, CPA of Massa Financial Solutions, LLC at 6015 E. Walnut, Westerville, Ohio 43081.

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

**Statement of Net Position
At June 30, 2017**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 1,579,188
Escrow Assets	396,324
Accounts Receivable	4,346
Intergovernmental Receivable	45,593
Prepaid Expense	40,318
Total Current Assets	2,065,769

Noncurrent Assets:

Bond Reserve Account	817,185
Capital Assets, net of Accumulated Depreciation	7,051,321
Total Noncurrent Assets	7,868,506

Total Assets 9,934,275

Deferred Outflows of Resources:

Unamortized Deferred Charges on Bond Refinancing	364,410
Pension (STRS & SERS)	1,363,955
Total Deferred Outflow of Resources	1,728,365

Liabilities:

Current Liabilities:

Accounts Payable, Trade	20,113
Accounts Payable, Related Party	228,813
Accrued Interest Payable	308,712
Accrued Expenses	67,220
Total Current Liabilities	624,858

Noncurrent Liabilities:

Net Pension Liability	5,399,396
Noncurrent Portion of Long-term Debt	11,246,122
Total Noncurrent Liabilities	16,645,518

Total Liabilities 17,270,376

Net Position:

Net Investment in Capital Assets	(2,264,692)
Restricted for Other Purposes	137,906
Unrestricted Net Position	(3,480,950)
Total Net Position	\$ (5,607,736)

See Accompanying Notes to the Basic Financial Statements

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

Operating Revenues:	
State Aid	\$ 5,107,362
Charge for Services	155,583
Miscellaneous	20,434
Total Operating Revenues	<u>5,283,379</u>
Operating Expenses:	
Purchased Services	4,460,905
Depreciation	135,070
Supplies	152,934
Other Operating Expenses	15,114
Total Operating Expenses	<u>4,764,023</u>
Operating Income	519,356
Non-Operating Revenues and (Expenses):	
Federal and State Restricted Grants	633,961
Bond Issuance Costs	(444,469)
Interest Expense	(602,698)
Net Non-operating Revenues and (Expenses)	<u>(413,206)</u>
Change in Net Position	106,150
Net Position Beginning of Year	<u>(5,713,886)</u>
Net Position End of Year	<u>\$ (5,607,736)</u>

See Accompanying Notes to the Basic Financial Statements

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

CASH FLOWS FROM OPERATING ACTIVITIES

State Aid Receipts	\$ 5,107,362
Charge for Services	155,583
Other Operating Receipts	16,089
Cash Payments to Suppliers for Goods and Services	<u>(4,278,493)</u>
Net Cash Provided By Operating Activities	<u>1,000,541</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Facility Bond Interest Payments	(665,886)
Proceeds from Debt Refunding Bonds	10,640,000
Payment to Bond Escrow Agent	(10,330,940)
Decrease in Escrow Accounts	180,579
Decrease in Bond Reserve Accounts	18,965
Bond Issuance Cost Payments	(444,469)
Premium on Debt Refunding Bonds	116,026
Note Payable Interest Payments	(22,569)
Federal and State Grant Receipts	<u>649,266</u>
Net Cash Provided By Noncapital Financing Activities	<u>140,972</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	<u>(32,293)</u>
Net Cash Used For Capital and Related Financing Activities	<u>(32,293)</u>

Net Increase in Cash and Cash Equivalents 1,109,220

Cash and Cash Equivalents - Beginning of the Year	<u>469,968</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 1,579,188</u>

See Accompanying Notes to the Basic Financial Statements

(Continued)

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income	\$ 519,356
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:	
Depreciation	135,070
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:	
(Increase) in Receivables	(4,346)
(Increase)/ Decrease in Deferred Outflows	(616,735)
Increase/ (Decrease) in Deferred Inflows	(241,567)
Increase/ (Decrease) in Net Pension Liability	1,178,099
Increase in Prepaid Expense	(17,212)
Decrease in Accounts Payable, Trade	(10,775)
(Decrease) in Accounts Payable, Related Party	51,884
Increase/Decrease in Accrued Expenses	6,767
Net Cash Provided By Operating Activities	<u><u>\$ 1,000,541</u></u>

See Accompanying Notes to the Basic Financial Statements

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 1 – DESCRIPTION OF ACADEMY

The Cornerstone Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314. The Academy offers education for Ohio children in kindergarten and grades 1 through 8. The Academy is independent of any Academy district and is nonsectarian in its programs, admission policies, employment practices, and all other operation. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy. The Academy is a federally recognized 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702.

The Academy was approved for operation under contract with the Ohio State Board of Education commencing on July 1, 2000. The Academy began the 2005-06 fiscal year under a contract with the St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing after July 1, 2005 and ending June 30, 2011. In June of 2011, the Sponsor renewed the charter contract for five academic years ending June 30, 2016. In June of 2016, the Sponsor again renewed the charter contract for five academic years ending 30, 2021. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Budgetary Process - Unlike other public Schools located in the State of Ohio, community Schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the Academy, but it does require that estimated budgets be submitted to the Sponsor prior to the start of each fiscal year.

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

Capital Assets - The Academy's capital assets during the year ended June 30, 2017 consisted of land, building and improvements, leasehold improvements, computer technology, furniture and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition value as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. 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 capitalized.

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

All 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:

<u>Description</u>	<u>Useful Lives</u>
Buildings and Improvements	30 years
Leasehold Improvements	15 years
Computer Technology	5 years
Furniture and Equipment	5-20 years

Net position - Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. At June 30, 2017, the Academy reported \$137,906 in restricted net position for cash in escrow and reserve accounts, net of related debt for future principal payments and (\$2,264,692) of net position invested in capital assets, net of accumulated depreciation and net of related debt.

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

Deferred Inflows and Deferred Outflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 9.

When utilizing the accrual basis of accounting, unamortized deferred charges on debt refinancing are reported as a deferred outflow of resources. Deferred charges on refunding result from the difference in the carrying value of refunded debt to its acquisition price. This amount is deferred and amortized over the shorter period of the life of the refunded debt or of the refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. In fiscal year 2017, there were no deferred inflows of resources reported on the statement of net position.

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the pension plans and additions to/deletions from their fiduciary net 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.

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.

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

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

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

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

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 3 - DEPOSITS

At June 30, 2017, the Academy's book balance was \$1,579,188, and the bank balance was \$1,624,015. \$250,578 of the bank balance was covered by federal depository insurance, while \$1,373,437 was exposed to custodial credit risk. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. All bank deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral as permitted by the Ohio Revised Code, is held in single financial collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

NOTE 4 - RECEIVABLES

At June 30, 2017, the Academy had intergovernmental receivables in the amount of \$45,593 representing monies due from State Foundation payment, Title I, IDEA-B, and Academy Counselor Grant, which was not received as of year-end. The receivables are expected to be collected within one year.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the period July 1, 2016 to June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets				
Land (not depreciated)	\$ 1,018,700	\$ -	\$ -	\$ 1,018,700
Buildings and Improvements	7,185,192	-	-	7,185,192
Leasehold Improvements	34,783	-	-	34,783
Computer Technology	139,182	18,077	-	157,259
Furniture & Equipment	226,416	14,216	-	240,632
Total Capital Assets	<u>8,604,273</u>	<u>32,293</u>	<u>-</u>	<u>8,636,566</u>
Less: Accumulated Depreciation				
Buildings and improvements	(1,093,852)	(103,678)	-	(1,197,530)
Leasehold Improvements	(20,650)	(2,319)	-	(22,969)
Computer Technology	(122,466)	(11,974)	-	(134,440)
Furniture & Equipments	(213,207)	(17,099)	-	(230,306)
Total Accumulated Depreciation	<u>(1,450,175)</u>	<u>(135,070)</u>	<u>-</u>	<u>(1,585,245)</u>
Capital Assets, Net	<u>\$ 7,154,098</u>	<u>\$ (102,777)</u>	<u>\$ -</u>	<u>\$ 7,051,321</u>

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 6 – LONG-TERM OBLIGATIONS

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

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017	Due Within One Year
<u>Net Pension Liability:</u>					
STRS	\$ 3,799,479	\$ 970,389	\$ -	\$ 4,769,868	\$ -
SERS	421,818	207,710	-	629,528	-
Total Net Pension Liability	<u>4,221,297</u>	<u>1,178,099</u>	<u>-</u>	<u>5,399,396</u>	<u>-</u>
<u>Other Long-Term Obligations:</u>					
Revenue Bonds - Series A 2012	9,520,000	-	(9,520,000)	-	-
Revenue Bonds - Series B 2012	620,000	-	(620,000)	-	-
Less: Bond Discount	(187,639)	-	187,639	-	-
Revenue Bonds - Series A 2016	-	9,715,000	-	9,715,000	-
Revenue Bonds - Series B 2016	-	925,000	-	925,000	-
Add: Bond Premium	-	116,026	(4,463)	111,563	-
Notes Payable - Accel	494,559	-	-	494,559	-
Total Other Long-term Obligations	<u>10,446,920</u>	<u>10,756,026</u>	<u>(9,956,824)</u>	<u>11,246,122</u>	<u>-</u>
Total Long-term Obligations	<u>\$ 14,668,217</u>	<u>\$ 11,934,125</u>	<u>\$ (9,956,824)</u>	<u>\$ 16,645,518</u>	<u>\$ -</u>

Revenue Bonds - In July 2012, the Academy issued Revenue Bonds totaling \$10,140,000, with an underwriter’s discount of \$228,150 and an original issue discount of \$187,639, with the Columbus-Franklin County Finance Authority. Under the terms of the bond agreement the Authority acquired the property at that time. The properties are leased back to the Academy through annual lease renewals through July 2042. In July 2016, the Academy refinanced the bonds at a premium, to realize savings from lower interest rates. The outstanding principal balance as of June 30, 2017 is \$10,640,000 (excluding premium) and interest payable of \$308,712.

The reacquisition price exceeded the net carrying amount of the 2012 debt by \$378,579. The loss on refinancing is reported as “unamortized charges on bond refinancing”.

The bonds were issued in two Series as follows:

Series A: Tax exempt redeemable lease revenue bonds totaling \$9,715,000. The Series A bears interest at 5.75%. Annual payments are interest only through fiscal 2022. Thereafter, monthly principal payments are required until maturity in July 2042.

Series B: Taxable redeemable lease revenue bonds totaling \$925,000. The Series B bears interest at 5.25%. Annual payments are interest only through fiscal 2018. Thereafter, monthly principal payments are required until maturity in July 2022.

The Academy’s lease obligations meet the criteria of a capital lease as defined by the Standards, and have been recorded in the financial statements. Land, Building, and Building Improvements are being depreciated over the useful life. Improvements were completed during the fiscal year.

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 6 – LONG-TERM OBLIGATIONS (continued)

Both the Series A and Series B require the Academy to comply with certain financial covenants including the requirement to maintain a certain amount of operating cash on hand, debt coverage ratio, and financial statement filing deadline. As of June 30, 2017, the Academy is in compliance with those covenants. The bonds are secured by the facility and a guaranty by Accel Schools, LLC (see Note 14), and required the forgiveness of accounts payable, related party, for amounts owed Accel Schools, LLC. for back rent. In addition, the Academy entered into a state Academy aid direction whereby the Academy directs the Ohio Department of Education to deposit the gross revenues into an account held by the bond Trustee, and shall be paid out in order of priority, a) transferred to debt service account and or redemption account to satisfy overdue and unpaid obligations, b) scheduled bond payments, c) replenish debt service fund, d) pay additional rent or make further payments, e) deposit to repair and replacement account to the extent available \$2,500 per month not to exceed \$27,500 per year, until the reserve balance is \$275,000.

As part of the agreement for the leases, monies were deposited into several escrow accounts with US Bank, N.A. Payments for construction and financing activities have been paid from these accounts. Lease payments were made by the Academy to cover Bond interest and administrative fees due in January and July 2014 and to make deposits in reserve accounts. Funds were deposited from the initial bond proceeds into an operating reserve and a reserve fund for future operating and debt service needs. A supplemental reserve, to be used for future debt service is funded by payments of the base lease payment for the full bond term. The balances of the escrow and reserve accounts as of June 30, 2017 were \$396,324 and \$817,185 respectively. The assets acquired through the capital lease as of June 30, 2017 were Land of \$1,018,700 and Buildings and Improvements of \$7,185,192. Accumulated depreciation on the buildings and improvements to date totaled \$1,197,530. Interest in the amount of \$665,886 was paid during fiscal year 2017 on the bonds.

The balances of the bond escrow and reserve accounts as of June 30, 2017 are as follows:

Reserve Fund	<u>\$ 817,185</u>
Total Reserve Fund	<u>\$ 817,185</u>
Repair and Replacement Fund	\$ 27,521
Bond Interest Fund	321,163
Project Fund	35,000
Refunding Account	<u>12,640</u>
Total Escrow Accounts	<u>\$ 396,324</u>

Notes Payable - In 2010, the Academy executed a \$1,238,877 promissory note payable to Mosaica Education, Inc., a related party (see note 14), to finance outstanding invoices for services and/or reimbursable expenses over a multi-year term at a fixed interest rate of 7.0%. This note was cancelled and reissued with a date of June 30, 2012. The interest rate remained the same. Quarterly installments were due beginning September 15, 2012 and continue through maturity on June 30, 2027. The note was subsequently cancelled by Accel Schools, LLC., in July 2015 and a note was reissued in the amount of \$500,000 for a 30-year term with an interest rate of 4.0%. No principal was paid in fiscal 2017, however principal payments are not required unless the Academy is operating at a surplus (principal payments are scheduled for fiscal year 2018 as a result of the Academy's surplus position) Interest in the amount of \$22,569 was paid during the fiscal year.

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 6 – LONG-TERM OBLIGATIONS (continued)

The following is a schedule of remaining debt service on these obligations:

	Revenue		Accel		Total Debt Service
	Bond Series A & B		Promissory Note		
	Principal	Interest	Principal	Interest	
2018	\$ -	\$ 616,425	\$ -	\$ 20,000	\$ 636,425
2019	195,000	604,237	-	20,000	819,237
2020	210,000	591,112	-	20,000	821,112
2021	225,000	577,050	-	20,000	822,050
2022	235,000	562,362	-	20,000	817,362
2023-2027	1,410,000	2,576,575	-	100,000	4,086,575
2028-2032	1,865,000	2,095,012	-	100,000	4,060,012
2033-2037	2,465,000	1,459,350	-	100,000	4,024,350
2038-2042	3,265,000	539,200	-	100,000	3,904,200
2043-2045	770,000	-	494,559	60,000	1,324,559
Total	\$ 10,640,000	\$ 9,621,325	\$ 494,559	\$ 560,000	\$ 21,315,884

NOTE 7 – RISK MANAGEMENT

Property and Liability - The Academy 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. During fiscal year 2017, the Academy contracted with Brown & Brown of Marmora through The Hartford for property and general liability insurance.

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Combined Single Limit	1,000,000
Buildings	6,950,000
Business Personal Property	607,800
Excess/Umbrella Liability:	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 7 – RISK MANAGEMENT (continued)

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

Other Employee Benefits - The Academy provides life insurance and accidental death and dismemberment, medical/surgical, dental and vision insurance to most employees through School Employees' Health and Welfare Benefits Plan and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board.

NOTE 8 – PURCHASED SERVICES

For fiscal year ended June 30, 2017, purchased service expenses were for the following services:

Purchased Services	2017
Personnel Services	\$2,858,599
Professional Fees	912,677
Building Services	333,115
Food Services	162,839
Sponsor Services	147,207
Other	46,468
	<u>\$4,460,905</u>

NOTE 9 – DEFINED BENEFIT PENSION PLANS

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

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

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

Net Pension Liability (continued)

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

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

School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

School Employees Retirement System (SERS) - continued

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

The Academy's contractually required contribution to SERS was \$41,236 for fiscal year 2017.

State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) – continued

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$229,613 for fiscal year 2017.

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) – continued

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$4,769,868	\$629,528	\$5,399,396
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01424989%	0.00860120%	
Prior Measurement Date	<u>0.01374776%</u>	<u>0.00739240%</u>	
Change in Proportionate Share	<u>0.00050213%</u>	<u>0.00120880%</u>	
Pension Expense	\$472,036	\$118,610	\$590,646

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) – continued

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$192,726	\$8,492	\$201,218
Net difference between projected and actual earnings on pension plan investments	396,028	51,927	447,955
Changes of assumptions	-	42,025	42,025
Changes in proportionate share and differences Between Academy contributions and proportionate Share of contributions	296,547	105,361	401,908
Academy contributions subsequent to the measurement date	<u>229,613</u>	<u>41,236</u>	<u>270,849</u>
Total Deferred Outflows of Resources	<u><u>\$1,114,914</u></u>	<u><u>\$249,041</u></u>	<u><u>\$1,363,955</u></u>
Deferred Inflows of Resources			
Changes in proportion and differences between Academy contributions and proportionate Share of contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

\$270,849 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 182,433	\$ 69,379	\$ 251,812
2019	182,435	69,346	251,781
2020	334,400	54,154	388,554
2021	<u>186,033</u>	<u>14,926</u>	<u>200,959</u>
Total	<u><u>\$885,301</u></u>	<u><u>\$207,805</u></u>	<u><u>\$1,093,106</u></u>

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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

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

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – SERS (continued)

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$833,456	\$629,528	\$458,832

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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

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

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$6,338,767	\$4,769,868	\$3,446,409

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

NOTE 10 – POSTEMPLOYMENT BENEFITS

School Employees Retirement System (SERS)

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 10 – POSTEMPLOYMENT BENEFITS

School Employees Retirement System (SERS) (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. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the Academy's surcharge obligation was \$4,500.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The Academy's contributions for health care for the fiscal year ended June 30, 2015, was \$182. The full amount has been contributed for fiscal year 2015.

State Teachers Retirement Systems (STRS)

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

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 11 - CONTINGENCIES

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

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

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

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

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

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

NOTE 12 – BUILDING LEASE

In September 2008, the Academy entered into a lease agreement with Mosaica Columbus LLC, an affiliated company of Mosaica Education, Inc. for the use of a Academy facility located at 6015 East Walnut Street, Westerville, OH. In July 2012, the Academy purchased the building from Mosaica Education, Inc. Pursuant to this transaction, the lease agreement between the Academy and Mosaica Education, Inc. was terminated.

In accordance with the bond transaction (see Note 6), the Academy entered into a lease agreement with Columbus–Franklin County Finance Authority dated July 1, 2016. The purpose of this lease was to facilitate

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 12 – BUILDING LEASE (continued)

the bond financing. The rent payments pursuant to this lease will be applied to the debt service of the bonds. The lease is subject to annual renewal at the option of the Academy and has successive one-year terms for a total of 30 years.

NOTE 13 - SPONSOR

The Academy was approved for operation under a contract renewal with St. Aloysius Orphanage (the Sponsor) for a period of five academic years commencing June 30, 2016. As part of this contract, the Sponsor is entitled to a maximum of 3% of the foundation funds received by the Academy from the state. Total amount due and paid for year ended June 30, 2017 was \$147,207.

NOTE 14 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES

The Academy entered into an agreement with Accel Schools, a management company, to provide legal, financial, and other management support services for fiscal year 2017. The agreement was for a period of five years beginning July 1, 2016. Management fees are calculated as 12.5% of the Academy’s State Revenue, plus \$20,000 for managing Federal Funds. The total amount due from the Academy for the fiscal year ending June 30, 2017 was \$634,720 and is included under “Purchased Services” on the Statement of Revenues, Expenses and Changes in Net Position.

Also, per the management agreement, there are expenses that were billed to the Academy based on the actual costs incurred by Accel Schools. These include the costs of providing education and other administrative services to the Schools, as well as interest expense. The total amount billed to the Academy inclusive of management fees during the year was \$3,288,810.

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

		Regular Instruction (1100 Function Codes)	Special Instruction (1200 Function Codes)	Support Services (2000 Function Codes)	Total
		1100	1200	2000	
<i>Direct Expenses:</i>					
Salaries & Wages (100 Object Codes)	100	\$ 1,439,095	\$ 124,092	\$ 338,502	\$ 1,901,689
Employees’ Benefits (200 Object Codes)	200	\$ 468,287	\$ 26,462	\$ 94,908	\$ 589,657
Professional & Technical Services (410 Object Codes)	410			\$ 27,962	\$ 27,962
Other Supplies (510 Object Codes)	510	\$ 17,129		\$ 18,037	\$ 35,165
Total Direct Expenses		\$ 1,924,511	\$ 150,554	\$ 479,409	\$ 2,554,474
<i>Indirect Expenses:</i>					
Overhead				\$ 81,640	\$ 81,640
Total Expenses		\$ 1,924,511	\$ 150,554	\$ 561,049	\$ 2,636,114

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

NOTE 15 – MANAGEMENT’S PLAN

For fiscal year 2017, the Academy had a net position deficit of \$(5,607,736). The Academy’s net deficit in fiscal year 2017 was an improvement from the \$(5,713,886) net deficit in fiscal 2016. Enrollment increased from approximately 653 students in fiscal 2016 to 689 students in fiscal 2017 and is currently at 719 students in fiscal year 2018. The Academy’s ability to maintain a stable administrative and instructional team along with active advertising via print, radio, mailings and through referrals of current parents is anticipated to help produce the likelihood of future enrollment growth leading to surpluses and provide an opportunity for the school to recover from its prior deficits.

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.00860120%	0.00739240%	0.00057590%	0.00575900%
Academy's Proportionate Share of the Net Pension Liability	\$ 629,528	\$ 421,818	\$ 291,460	\$ 342,469
Academy's Covered Payroll	\$ 314,771	\$ 22,253	\$ 169,026	\$ 245,520
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	200.00%	1895.56%	172.44%	139.49%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available

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

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

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

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.01424989%	0.01374776%	0.01269290%	0.01269290%
Academy's Proportionate Share of the Net Pension Liability	\$ 4,769,868	\$ 3,799,479	\$ 3,087,353	\$ 3,677,634
Academy's Covered Payroll	\$ 1,514,186	\$ 1,434,350	\$ 1,396,623	\$ 1,090,185
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	315.01%	264.89%	221.06%	337.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available

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

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 41,236	\$ 44,068	\$ 2,933	\$ 23,427	\$ 33,980
Contributions in Relation to the Contractually Required Contribution	<u>\$ (41,236)</u>	<u>\$ (44,068)</u>	<u>\$ (2,933)</u>	<u>\$ (23,427)</u>	<u>\$ (33,980)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's Covered Payroll	\$ 294,543	\$ 314,771	\$ 22,253	\$ 169,026	\$ 245,520
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 31,680	\$ 31,680	\$ 27,018	\$ 13,918	\$ 8,602
Contributions in Relation to the Contractually Required Contribution	<u>\$ (31,680)</u>	<u>\$ (31,680)</u>	<u>\$ (27,018)</u>	<u>\$ (13,918)</u>	<u>\$ (8,602)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's Covered Payroll	\$ 235,539	\$ 252,029	\$ 199,542	\$ 141,443	\$ 87,597
Contributions as a Percentage of Covered Payroll	13.45%	12.57%	13.54%	9.84%	9.82%

CORNERSTONE ACADEMY - FRANKLIN COUNTY, OHIO

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 229,613	\$ 211,986	\$ 200,809	\$ 181,561	\$ 141,724
Contributions in Relation to the Contractually Required Contribution	<u>\$ (229,613)</u>	<u>\$ (211,986)</u>	<u>\$ (200,809)</u>	<u>\$ (181,561)</u>	<u>\$ (141,724)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's Covered Payroll	\$ 1,640,093	\$ 1,514,186	\$ 1,434,350	\$ 1,396,623	\$ 1,090,185
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 128,848	\$ 114,573	\$ 85,366	\$ 52,871	\$ 43,888
Contributions in Relation to the Contractually Required Contribution	<u>\$ (128,848)</u>	<u>\$ (114,573)</u>	<u>\$ (85,366)</u>	<u>\$ (52,871)</u>	<u>\$ (43,888)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's Covered Payroll	\$ 991,138	\$ 881,331	\$ 656,662	\$ 406,700	\$ 337,600
Contributions as a Percentage of Covered Payroll	13.00%	13.00%	13.00%	13.00%	13.00%

December 26, 2017

To the Board of Trustees
Cornerstone Academy
Franklin County, Ohio
6025 East Walnut Street
Westerville, Ohio 43081

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Cornerstone Academy, Franklin County, Ohio (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 26, 2017, in which we noted the Academy has previously suffered recurring losses from operations and has a net position deficiency of \$5,607,736, including the effect of net pension liability and related accruals totaling \$4,035,441, that raises substantial doubt about its ability to continue as a going concern.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 *Governmental Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Cambridge, Ohio



Dave Yost • Auditor of State

CORNERSTONE ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2018**