

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY, OHIO**

**AUDIT REPORT**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2015**

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





# Dave Yost • Auditor of State

Board of Directors  
Akron Preparatory School  
219 East Maple St. Ste 202  
North Canton, OH 44720

We have reviewed the *Independent Auditor Report* of the Akron Preparatory School, Summit County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 Akron Preparatory School is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

March 29, 2016

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**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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**INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board  
Akron Preparatory School  
Akron, Ohio 44316

The Honorable Dave Yost  
Auditor of State  
State of Ohio

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Akron Preparatory School, Summit County, Ohio, (the School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School'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 School'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 School'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 Akron Preparatory School, Ohio, as of June 30, 2015, and the changes in financial position, and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 3 to the basic financial statements, the School adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, and restated its net position at June 30, 2014. Also, as described in Note 16 to the basic financial statements, there is substantial doubt about the School's ability to continue as a going concern. Our opinion is not modified with respect to these matters.

***Other Matters***

***Required Supplementary Information***

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2015, on our consideration of the Akron Preparatory School, Ohio'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 Akron Preparatory School, Ohio's internal control over financial reporting and compliance.

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

Digitally signed by James G. Zupka, CPA,  
President  
DN: cn=James G. Zupka, CPA, President,  
o=James G. Zupka, CPA, Inc., ou=Accounting,  
email=jgzcpa@sbcglobal.net, c=US  
Date: 2015.12.31 13:59:26 -05'00'

December 30, 2015

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**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The discussion and analysis of the Akron Preparatory School (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

**FINANCIAL HIGHLIGHTS**

Key Financial Highlights for the School for the 2014-15 school year are as follows:

- Total assets decreased by \$117,412.
- Total liabilities increased by \$2,450,517.
- Total Net Position decreased by \$855,122.
- Total operating and non-operating revenues were \$3,086,761. Total operating expenses were \$3,941,883.

**USING THIS ANNUAL REPORT**

This report consists of four parts: the MD&A, the basic financial statements, notes to those statements, and required Supplementary Information. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how the School did financially during fiscal year 2015. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's Net Position and changes in that position. This change in Net Position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

(Continued)

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Statement of Net Position**

The Statement of Net Position answers the question of how the School did financially during 2015. This statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's Net Position for fiscal year 2015.

**Table 1  
Statement of Net Position**

	<b>2015</b>	<b>Restated 2014</b>
<b>Assets</b>		
Current Assets	\$ 171,234	\$ 174,612
Other Assets	74,379	58,846
Capital Assets, Net	246,807	376,374
Total Assets	492,420	609,832
 <b>Deferred Outflows of Resources</b>	 2,220,624	 117,894
 <b>Liabilities</b>		
Current Liabilities	1,495,196	1,165,267
Net Pension Liability	2,120,588	-
Total Liabilities	3,615,784	1,165,267
 <b>Deferred Inflows of Resources</b>	 389,923	 -
 <b>Net Position</b>		
Net Investment in Capital Assets	246,807	376,374
Unrestricted	(1,539,470)	(813,915)
Total Net Position	\$ (1,292,663)	\$ (437,541)

During 2015, the School adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Under the new standards required by GASB 68, the net pension liability equals the School'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 School 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 School'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 School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from (\$555,435) to (\$437,541). Due to the School's first year of operations being FY14, the restatement does not include net pension liability.

Over time, Net Position can serve as a useful indicator of a government's financial position. At June 30, 2015, the School's net position totaled \$(1,292,663).

Current assets represent cash and cash equivalents and accounts receivable. Current liabilities represent accounts payable, accrued expenses, advances payable, and withholdings payable at fiscal year-end.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Statement of Revenues, Expenses and Change in Net Position**

Table 2 shows the change in Net Position for fiscal year 2015, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**Table 2  
Change in Net Position**

	<b>2015</b>	<b>Restated 2014</b>
<b>Operating Revenue</b>		
State Aid	\$ 2,482,865	\$ 1,719,382
Other	20,698	263,369
Total Operating Revenues	2,503,563	1,982,751
<b>Operating Expenses</b>		
Salaries	1,202,019	927,364
Fringe Benefits	673,123	198,870
Purchased Services	1,683,917	1,291,379
Materials and Supplies	129,997	194,521
Depreciation	159,512	139,549
Other	93,315	26,345
Total Operating Expenses	3,941,883	2,778,028
Operating (Loss)	(1,438,320)	(795,277)
<b>Non-Operating Revenues</b>		
Federal Grants	583,198	219,842
Other Intergovernmental Revenues	-	20,000
Total Non-Operating Revenues	583,198	239,842
<b>Decrease in Net Position</b>	(855,122)	(555,435)
Net Position, Beginning of Year, Restated – See Note 3	(437,541)	N/A
Net Position, End of Year	\$ (1,292,663)	\$ (437,541)

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 operating expenses still include pension expense of \$117,894 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Under GASB 68, the 2015 statements report pension expense of \$588,648. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 68	\$ 3,941,883
Pension expense under GASB 68	(588,648)
2015 contractually required pension contribution	<u>180,867</u>
Adjusted 2015 operating expenses	3,534,102
Total 2014 operating expenses under GASB 27	<u>2,778,028</u>
Increase in operating expenses not related to pension	<u>\$ 756,074</u>

Overall, the increase in Operating Revenues was a result of additional students being enrolled over the prior year, in addition to positive changes to the State funding formula. More enrollment was also a driving force behind the increase in Non-Operating Revenues. There was also a corresponding increase across most of the expense categories during fiscal year 2015 due to the additional students needing to be served and certain expenses being based on a percentage of revenues, which overall were higher compared to the prior year.

**BUDGETING HIGHLIGHTS**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its Sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, annually.

**CAPITAL ASSETS**

At fiscal year end, the School's net capital asset balance was \$246,807. This balance represents current year additions of \$29,945 offset by current year depreciation of \$159,512. For more information on capital assets, see Note 6 of the Basic Financial Statements.

**WORKING CAPITAL ADVANCES -CHARTER SCHOOL CAPITAL**

During the fiscal year, the School received working capital monies from Charter School Capital through a receivables purchase agreement. As the School receives monthly State funding, these advances are repaid, however, the School may elect to receive additional advances from Charter School Capital by entering into additional agreements. The School also received some advances during the year from the other schools in the I CAN Schools network.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**CURRENT FINANCIAL ISSUES**

The School is a community School and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue. In 2015, the State raised the base per pupil funding to \$5,800, which is up from \$5,745 in the previous year. Additionally, community schools in Ohio will be allocated a small amount of facilities funding which is also per pupil based. This amount is projected to be approximately \$92 per pupil.

The full-time equivalent enrollment of the School for the year ended June 30, 2015 was 312.69 compared to a figure of 229.50 at the end of fiscal year 2014.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of the students served.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact the School's Fiscal Officer, C. David Massa, CPA of Massa Financial Solutions, LLC, 1144 East Market St, Akron, OH 44305 or e-mail at [dave@massasolutionsllc.com](mailto:dave@massasolutionsllc.com).

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**Statement of Net Position  
At June 30, 2015**

**Assets**

Current Assets:

Cash and Cash Equivalents	\$ 911
Accounts Receivable	170,323

Total Current Assets	<u>171,234</u>
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Noncurrent Assets:

Prepaid Expenses	57,379
Other Assets	17,000
Capital Assets, net	246,807
Total Noncurrent Assets	<u>321,186</u>

Total Assets	<u>\$ 492,420</u>
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<b>Deferred Outflows of Resources</b>	<u>\$ 2,220,624</u>
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**Liabilities**

*Current Liabilities:*

Accounts Payable	\$ 239,022
Accrued Expenses	55,524
Advances Payable	1,191,856
Withholdings Payable	8,794

Total Current Liabilities	<u>\$ 1,495,196</u>
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*Long Term Liabilities:*

Net Pension Liability (See Note 10)	<u>2,120,588</u>
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Total Long Term Liabilities	<u>2,120,588</u>
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Total Liabilities	<u>3,615,784</u>
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<b>Deferred Inflows of Resources</b>	<u>389,923</u>
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**Net Position**

Net Investment in Capital Assets	246,807
Unrestricted	<u>(1,539,470)</u>

Total Net Position	<u>\$ (1,292,663)</u>
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See accompanying notes to the basic financial statements

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**Statement of Revenues,  
Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2015**

<b><u>Operating Revenues</u></b>	
State Aid	\$ 2,482,865
Other	20,698
Total Operating Revenues	<u>2,503,563</u>
<b><u>Operating Expenses</u></b>	
Salaries	1,202,019
Fringe Benefits	673,123
Purchased Services	1,683,917
Materials and Supplies	129,997
Depreciation	159,512
Other	93,315
Total Operating Expenses	<u>3,941,883</u>
<b>Operating (Loss)</b>	(1,438,320)
<b><u>Non-Operating Revenues</u></b>	
Federal Grants	583,198
Total Non-Operating Revenues	<u>583,198</u>
<b>Change in Net Position</b>	(855,122)
<b>Net Position, Beginning of Year, Restated – See Note 3</b>	<u>(437,541)</u>
<b>Net Position, End of Year</b>	<u><u>\$ (1,292,663)</u></u>

See accompanying notes to the basic financial statements

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2015**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$ 2,470,525
Cash Received from Other Operating Sources	20,698
Cash Payments to Suppliers for Goods and Services	(2,002,289)
Cash Payments to Employees for Services	(1,202,019)
Cash Payments for Employee Benefits	(265,342)
	<hr/>
Net Cash (Used for) Operating Activities	(978,427)

**Cash Flows from Non-capital Financing Activities**

Cash Received from Federal Grants	583,198
Cash Received from Advances	2,579,768
Cash Payments on Advances	(2,170,312)
	<hr/>
Net Cash Provided by Non-capital Financing Activities	992,654

**Cash Flows from Capital and Related Financing Activities**

Cash Payments for Capital Acquisitions	(29,945)
	<hr/>
Net Cash (Used for) Capital Financing Activities	(29,945)

**Net Decrease in Cash and Cash Equivalents** (15,718)

**Cash and Cash Equivalents, Beginning of Year** 

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16,629

**Cash and Cash Equivalents, End of Year** 

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\$ 911

**(Continued)**

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2015  
(Continued)**

**RECONCILIATION OF OPERATING LOSS TO NET  
CASH (USED FOR) OPERATING ACTIVITIES**

<b>Operating Loss</b>	\$ (1,438,320)
Depreciation	159,512
Changes in Assets and Liabilities and Deferred Inflows and Deferred Outflows:	
(Increase)/ Decrease in Deferred Outflows	(2,102,730)
(Increase)/ Decrease in Accounts Receivable	(12,340)
(Increase)/Decrease in Other Assets	(15,533)
Increase/ (Decrease) in Accounts Payable	94,574
(Increase)/ Decrease in Deferred Inflows	389,923
(Increase)/ Decrease in Net Pension Liability	2,120,588
Increase/ (Decrease) in Withholdings Payable	(879)
Increase/ (Decrease) in Accrued Expenses	<u>(173,222)</u>
Net Cash (Used for) Operating Activities	<u>\$ (978,427)</u>

See accompanying notes to the basic financial statements

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**1. DESCRIPTION OF THE ENTITY**

The Akron Preparatory School, (the School) is a federally recognized 501(c)(3) and Ohio nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The School operates on a foundation, which fosters character building for all students, parents and staff members. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Ohio Council of Community Schools ("OCCS") (the Sponsor) for a five year period commencing on July 1, 2013. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes in Net Position, financial position and cash flows.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation (Continued)**

The Governmental Accounting Standards Board requires the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. The difference between total assets and deferred outflows of resources and liabilities and deferred inflows of resources are defined as net position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided for in the School's sponsorship agreement. The contract between the School and its Sponsor requires a detailed budget for each year of the contract.

**D. Cash and Cash Equivalents**

Cash received by the School is reflected as "Cash and Cash Equivalents" on the Statement of Net Position. The School did not have any investments during the period ended June 30, 2015.

**E. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**F. 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 these estimates.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Capital Assets and Depreciation**

Capital assets are capitalized at cost. Donated Capital Assets are recorded at their fair market values as of the date received. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from Net Position. Capital assets were \$246,807 as of June 30, 2015, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets which are as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Computers & Technology Assets	3 years
Furniture, Fixtures, & Equipment	5 years
Textbooks	3 years

The School's policy for asset capitalization threshold is \$5,000. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompanying Statement of Net Position.

**H. Intergovernmental Revenues**

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in various federal programs passed through the Ohio Department of Education.

Under the above programs the School recorded \$2,482,865 this fiscal year from the Foundation Program and \$583,198 from Federal Grants and other intergovernmental sources.

**AKRON PREPARATORY SCHOOL  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Operating And Non-Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2015.

Non-operating revenues are those revenues that are not generated directly from the primary activities of the School. Various federal and state grants, interest earnings, if any, and other miscellaneous revenues comprise the non-operating revenues of the School. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any comprise the non-operating expenses.

**J. Compensated Absences**

Vacation is taken in a manner which corresponds with the school calendar; therefore the School does not accrue vacation time as a liability.

Sick/personal leave benefits are earned by full-time employees at the rate of ten days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

**K. Accrued Liabilities**

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, accrued expenses, advances, and withholdings payable totaling \$1,495,196 at June 30, 2015.

**L. Exchange and Non-Exchange Transactions**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. 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 through external restriction imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available. Net Position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

**N. 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 future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

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 future periods and will not be recognized until that time. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10)

**O. 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.

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**3. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSTION**

For fiscal year 2015, the School implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

Net position June 30, 2014	(\$555,435)
Adjustments:	
Deferred Outflow - Payments Subsequent to Measurement Date	<u>117,894</u>
Restated Net Position June 30, 2014	<u><u>(\$437,541)</u></u>

Due to the School's operations beginning in FY14, the School made no restatement for net pension liability.

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

**4. CASH AND CASH EQUIVALENTS**

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The School maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2015, the book amount of the School's deposits was \$911 and the bank balance was \$5,253.

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2015, none of the bank balance was exposed to custodial credit risk.

**5. RECEIVABLES**

The School had receivables totaling \$170,323 outstanding at June 30, 2015. These receivables represented monies earned from other organizations and governments, but not received as of year-end.

**AKRON PREPARATORY SCHOOL  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**6. CAPITAL ASSETS**

For the period ending June 30, 2015, the School's capital assets consisted of the following:

	<u>Balance 06/30/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/15</u>
<b>Capital Assets:</b>				
Computers & Technology Assets	\$ 265,900	\$ -	\$ -	\$ 265,900
Furniture, Fixtures, & Equipment	243,196	-	-	243,196
Textbooks	6,826	29,945	-	36,771
<b>Total Capital Assets</b>	515,922	29,945	-	545,867
 <b>Less Accumulated Depreciation:</b>				
Computers & Technology Assets	(88,634)	(88,634)	-	(177,268)
Furniture, Fixtures, & Equipment	(48,639)	(48,639)	-	(97,278)
Textbooks	(2,275)	(22,239)	-	(24,514)
<b>Total Accumulated Depreciation</b>	(139,548)	(159,512)	-	(299,060)
<b>Capital Assets, Net</b>	<u>\$ 376,374</u>	<u>\$ (129,567)</u>	<u>\$ -</u>	<u>\$ 246,807</u>

**7. ADVANCES PAYABLE**

During the fiscal year ending 2015, the School received advances payable from Northeast Ohio College Preparatory School and University of Cleveland Preparatory School, other community schools managed by I CAN Schools. Additionally, during fiscal year 2015, the School received working capital advances from Charter School Capital through a receivables purchase agreement. As the School receives its monthly State funding, these advances are repaid, however, the School may elect to receive future advances from Charter School Capital by entering into additional agreements.

The total amount of advances outstanding from both sources at June 30, 2015 was \$1,191,856. The activity for the year is reflected as follows:

<u>Balance July 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2015</u>
<u>\$ 782,400</u>	<u>\$ 2,579,768</u>	<u>\$ 2,170,312</u>	<u>\$ 1,191,856</u>

**AKRON PREPARATORY SCHOOL  
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**8. LONG-TERM OBLIGATIONS**

The changes in the School's long-term obligations during fiscal year 2015 were as follows:

	<b>Principal Outstanding 06/30/14</b>	<b>Additions</b>	<b>Deductions</b>	<b>Principal Outstanding 06/30/15</b>
Net Pension Liability:				
SERS	-	105,470	-	105,470
STRS	-	2,015,118	-	2,015,118
Total Net Pension Liability	-	2,120,588	-	2,120,588
Total Long-Term Obligations	-	2,120,588	-	2,120,588

**9. RISK MANAGEMENT**

**A. Property & Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2015, the School contracted with Cincinnati Insurance Company for general liability insurance with a \$1,000,000 each occurrence/ \$2,000,000 annual aggregate, as well as, a \$1,000,000 of automobile liability coverage and an umbrella policy with a \$10,000,000 aggregate limit. The School also had a \$1,000,000 School Leaders policy in place through National Union Fire Insurance.

**B. Workers' Compensation**

The School pays the State Worker's 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.

**C. Employee Medical and Dental Benefits**

The School provides medical, vision, and dental insurance benefits through Anthem to all full-time employees. During the School year, the School paid 90% of the monthly premiums for all employees.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**10. DEFINED BENEFIT PENSIONS PLANS**

**A. Net Pension Liability**

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

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

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

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

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

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

Plan Description – The School's 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](http://www.ohsers.org) under Employers/Audit Resources.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**10. DEFINED BENEFIT PENSIONS PLANS (Continued)**

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was \$10,396, and \$7,854 for fiscal years 2015, and 2014 respectively.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**10. DEFINED BENEFIT PENSIONS PLANS (Continued)**

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**10. DEFINED BENEFIT PENSIONS PLANS (Continued)**

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$170,471, and \$110,040 for fiscal years 2015, and 2014 respectively. There were no contributions to the DC and Combined Plans for fiscal year 2015.

**D. 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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$105,470	\$2,015,118	\$2,120,588
Proportion of the Net Pension Liability	0.00208400%	0.00828467%	
Pension Expense	\$30,402	\$558,246	\$588,648

At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**10. DEFINED BENEFIT PENSIONS PLANS (Continued)**

**D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$898	\$19,400	\$20,298
Changes in proportionate share	99,142	1,920,317	2,019,459
School contributions subsequent to the measurement date	<u>10,396</u>	<u>170,471</u>	<u>180,867</u>
Total Deferred Outflows of Resources	<u>\$110,436</u>	<u>\$2,110,188</u>	<u>\$2,220,624</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$17,118</u>	<u>\$372,805</u>	<u>\$389,923</u>
Total Deferred Inflows of Resources	<u>\$17,118</u>	<u>\$372,805</u>	<u>\$389,923</u>

\$180,867 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	\$20,730	\$391,728	\$412,458
2017	20,730	391,728	412,458
2018	20,730	391,728	412,458
2019	<u>20,732</u>	<u>391,728</u>	<u>412,460</u>
Total	<u>\$82,922</u>	<u>\$1,566,912</u>	<u>\$1,649,834</u>

**E. Actuarial Assumptions - SERS**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**10. DEFINED BENEFIT PENSIONS PLANS (Continued)**

**E. Actuarial Assumptions – SERS (Continued)**

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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

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**10. DEFINED BENEFIT PENSIONS PLANS (Continued)**

**E. Actuarial Assumptions – SERS (Continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
Total	<u><u>100.00 %</u></u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School's proportionate share of the net pension liability	\$150,475	\$105,470	\$67,617

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**10. DEFINED BENEFIT PENSIONS PLANS (Continued)**

**F. Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014 valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<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>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**10. DEFINED BENEFIT PENSIONS PLANS (Continued)**

**F. Actuarial Assumptions – STRS (Continued)**

***Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 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%)
School's proportionate share of the net pension liability	\$2,884,863	\$2,015,118	\$1,279,609

**11. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Health Care Plan Description - The School District 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](http://www.ohsers.org) under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. 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.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**11. POSTEMPLOYMENT BENEFITS (Continued)**

**A. School Employees Retirement System (Continued)**

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, and 2014 were \$647, \$933, respectively. For fiscal year 2015 and 2014, 100.00 percent has been contributed.

**B. School Teachers Retirement Systems**

Plan Description – The School participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://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 year 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2015, and 2014 were \$0 and \$9,311 respectively. The full amount has been contributed for fiscal years 2015 and 2014.

**12. CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

There are currently no matters in litigation with the School as defendant.

**C. Full-Time Equivalency**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As of the date of this report ODE has finalized two adjustments to the June 30, 2015 Foundation funding for the School. The first and second adjustments were recorded as accrued expenses of \$51,177.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**13. SPONSOR AND MANAGEMENT CONTRACTS**

**A. Sponsor**

The School contracted with Ohio Council of Community Schools (OCCS) as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2015, the total sponsorship fees paid totaled \$70,067.

**B. Management Company**

The School entered into an agreement with I CAN Schools, a local nonprofit management company, to provide legal, financial, and other management support services for fiscal year 2015. The agreement was for a period of five years beginning July 1, 2013. Management fees are calculated as 18% of the total revenues received from the State of Ohio. The total amount due from the School for the fiscal year ending June 30, 2015 was \$554,658 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Changes in Net Position.

**14. PURCHASED SERVICES**

For the period of July 1, 2014 through June 30, 2015, the School made the following purchased services commitments.

Professional and Technical Services	\$ 711,007
Property Services	342,153
Travel and Meetings	841
Utilities	62,450
Communications	4,623
Contractual Trade Services	203,168
Pupil Transportation	<u>359,675</u>
	<u>\$ 1,683,917</u>

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**15. LEASE OBLIGATIONS**

On February 18, 2013, the School entered into a lease with IRG RC Market HQ, LLC for 42,938 square feet of space located at 1144 East Market Street, Akron, OH 44305. The term of the lease is for a period of ten years. Base rent expense for the fiscal year ended 2015 was \$270,514. Future lease obligations are as follows:

FY2016	\$ 312,589
FY2017	\$ 348,657
FY2018	\$ 372,702
FY2019	\$ 396,318
FY2020	\$ 420,363
FY2021	\$ 444,408
FY2022	\$ 468,454
FY2023	\$ 492,499
Total	<u>\$ 3,255,989</u>

**16. DEFICIT FUND BALANCE AND MANAGEMENT'S PLAN**

The School's Net Position at June 30, 2015 was (\$1,292,663). This was due to the fact that the School's current liabilities exceeded its available assets to meet those obligations. The Board remains committed to the success of the School both academically and financially and is focused on overcoming this deficit through increases in student enrollment.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
SCHOOL EMPLOYEE'S RETIREMENT SYSTEM OF OHIO  
LAST FISCAL YEAR (1)**

	<b>2014</b>
School's Proportion of the Net Pension Liability	0.00208400%
School's Proportionate Share of the Net Pension Liability	\$ 105,470
School's Covered-Employee Payroll	\$ 56,667
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	186.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%

(1) Information prior to 2014 is not available since the School opened in FY14

Amounts presented as of the School's measurement date  
which is the prior fiscal year end.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

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

	<u>2014</u>
School's Proportion of the Net Pension Liability	0.00828467%
School's Proportionate Share of the Net Pension Liability	\$ 2,015,118
School's Covered-Employee Payroll	\$ 846,462
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	238.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%

(1) Information prior to 2014 is not available since the School opened in FY14

Amounts presented as of the School's measurement date  
which is the prior fiscal year end.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
SCHOOL EMPLOYEE'S RETIREMENT SYSTEM OF OHIO  
LAST FISCAL YEAR (1)**

	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 10,396	\$ 7,854
Contributions in Relation to the Contractually Required Contribution	<u>\$ (10,396)</u>	<u>\$ (7,854)</u>
Contribution Deficiency (Excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
School's Covered-Employee Payroll	\$ 78,881	\$ 56,667
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%

(1) Information prior to 2014 is not available

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
STATE TEACHER'S RETIREMENT SYSTEM OF OHIO  
LAST FISCAL YEAR (1)**

	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 170,471	\$ 110,040
Contributions in Relation to the Contractually Required Contribution	<u>\$ (170,471)</u>	<u>\$ (110,040)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
School's Covered-Employee Payroll	\$ 1,217,650	\$ 846,462
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%

(1) Information prior to 2014 is not available

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY, OHIO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor/ Pass Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b><u>U.S. Department of Agriculture</u></b>		
<i>Passed through the Ohio Department of Education</i>		
Child Nutrition Cluster:		
National School Breakfast Program (SLP)	10.553	\$ 57,655
National School Lunch Program (NSLP)	10.555	<u>132,375</u>
Total Child Nutrition Cluster		<u>190,030</u>
<b>Total U.S. Department of Agriculture</b>		<u>190,030</u>
<b><u>U.S. Department of Education</u></b>		
<i>Passed through Ohio Department of Education</i>		
Title I-Grants to Local Educational Agencies (Part A of the ESEA)	84.010	<u>330,618</u>
Special Education - Grants to States (IDEA, Part B)	84.027	<u>46,548</u>
Title II-A - Grants to States - Improving Teacher Quality	84.367	<u>757</u>
<b>Total U.S. Department of Education</b>		<u>377,923</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u>\$ 567,953</u>

See accompanying notes to the Supplemental Schedule of Federal Awards.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY, OHIO  
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Akron Preparatory School and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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

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Ohio Society of Certified Public Accountants

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

To the Members of the Board  
Akron Preparatory School  
Akron, Ohio 44316

The Honorable Dave Yost  
Auditor of State  
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Akron Preparatory School, Summit County, Ohio, (the School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Akron Preparatory School, Ohio's basic financial statements and have issued our report thereon dated December 30, 2015, wherein we noted that the School adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, and restated its net position at June 30, 2014. We also noted there is a substantial doubt about the School's 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 School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Akron Preparatory School, Ohio'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 School's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Akron Preparatory School, Ohio'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 Akron Preparatory School, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**James G. Zupka**  
**CPA, President**

Digitally signed by James G. Zupka, CPA,  
President  
DN: cn=James G. Zupka, CPA, President,  
o=James G. Zupka, CPA, Inc., ou=Accounting,  
email=jgzcpa@sbcglobal.net, c=US  
Date: 2015.12.31 14:00:12 -05'00'

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

December 30, 2015

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

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

To the Members of the Board  
Akron Preparatory School  
Akron, Ohio 44316

The Honorable Dave Yost  
Auditor of State  
State of Ohio

**Report on Compliance for Each Major Federal Program**

We have audited the Akron Preparatory School, Summit County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Akron Preparatory School, Ohio's major federal program for the year ended June 30, 2015. The Akron Preparatory School, Ohio's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Akron Preparatory School, Ohio's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Akron Preparatory School, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Akron Preparatory School, Ohio's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Akron Preparatory School, Ohio, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

## Report on Internal Control Over Compliance

Management of the Akron Preparatory School, Ohio, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Akron Preparatory School, Ohio's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Akron Preparatory School, Ohio's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Digitally signed by James G. Zupka, CPA,  
President  
DN: cn=James G. Zupka, CPA, President,  
o=James G. Zupka, CPA, Inc., ou=Accounting,  
email=jgzcpa@sbcglobal.net, c=US  
Date: 2015.12.31 14:00:38 -05'00'

December 30, 2015

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY, OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 & §.505  
JUNE 30, 2015**

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**1. SUMMARY OF AUDITOR’S RESULTS**

2015(i)	Type of Financial Statement Opinion	Unmodified
2015(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2015(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2015(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2015(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2015(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2015(v)	Type of Major Program’s Compliance Opinion	Unmodified
2015(vi)	Are there any reportable findings under .510(a)?	No
2015(vii)	Major Programs (list):	
	Title I - Grants to Local Educational Agencies - CFDA #84.010	
2015(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2015(ix)	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**AKRON PREPARATORY SCHOOL  
SUMMIT COUNTY, OHIO  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2015**

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The prior audit report, as of June 30, 2014, included no citations or instances of noncompliance. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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# Dave Yost • Auditor of State

AKRON PREPARATORY SCHOOL

SUMMIT 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  
APRIL 12, 2016