

***PATRIOT PREPARATORY ACADEMY
(A COMPONENT UNIT OF REYNOLDSBURG
CITY SCHOOL DISTRICT)***

FRANKLIN COUNTY, OHIO

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2017





Dave Yost • Auditor of State

Board of Directors
Patriot Preparatory Academy
4938 Beatrice Drive
Columbus, OH 43227

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

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

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

Dave Yost
Auditor of State

January 25, 2018

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PATRIOT PREPARATORY ACADEMY
(a Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY
AUDIT REPORT
For the year ended June 30, 2017

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

REPORT OF INDEPENDENT AUDITORS

Patriot Preparatory Academy
Franklin County
4938 Beatrice Drive
Columbus, Ohio 43227

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Patriot Preparatory Academy, Franklin County, Ohio (the Academy), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2017 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.

November 3, 2017

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2017
(Unaudited)

The management's discussion and analysis of Patriot Preparatory Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the Academy's financial performance.

Key Financial Highlights of the Academy

Key 2017 financial highlights for the Academy are as follows:

- The Academy saw the net position increase by \$899,406 during fiscal year 2017. The Academy is required to report a net pension liability of \$6,500,245 is one of the components that significantly reduces the Academy's net position. By removing the items included from GASB 68, the Academy would report a net position of \$2,134,271.
- The total assets of the Academy were \$6,384,282 as of June 30, 2017 which is up 63% from fiscal year 2016. The Academy reports a large intergovernmental receivable for the Ohio School Facilities Commission Grant awarded for the school construction project.
- The Academy decreased the overall debt associated with the Academy by \$314,922 as the monthly payments reduced the principal outstanding.

Using this Annual Financial Report and Overview of Financial Statements

This annual report consists of three components: the management discussion and analysis, the basic financial statements and notes to those statements. 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 presents information on all the Academy's assets, deferred outflows, liabilities and deferred inflows, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Academy's net position changed during the most recent fiscal year.

The statement of cash flows presented the sources and uses of the Academy's cash and how it changed during the most recent fiscal year.

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2017
(Unaudited)

Financial Analysis

Table 1 provides a summary of the Academy's net position at fiscal year-end for fiscal years 2017 and 2016 (GAAP basis).

Table 1
Net Position at Year End

	2017	2016
Assets:		
Current Assets	\$ 2,676,780	\$ 745,272
Capital Assets	3,707,502	3,160,859
Total Assets	6,384,282	3,906,131
 Deferred Outflows	 1,263,395	 731,014
Liabilities		
Current Liabilities	2,348,229	571,670
Long-term Liabilities		
Net Pension Liability	6,500,245	5,581,109
Other Long-term Liabilities	1,901,782	2,234,254
Total Liabilities	10,750,256	8,387,033
 Deferred Inflows	 296,457	 548,554
Net Position:		
Net investment in capital assets	1,451,400	611,568
Unrestricted	(4,850,436)	(4,910,010)
Total Net Position	\$ (3,399,036)	\$ (4,298,442)

The Academy's financial statements incorporates 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 Academy'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.

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2017
(Unaudited)

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.

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

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

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

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

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

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2017
(Unaudited)

As a result of GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Other than the pension items, the Academy saw current assets increase as the Academy reported \$1,912,588 intergovernmental receivable related to the Ohio School Facility Commission grant (the "grant".) The capital assets increased \$546,643 as the construction project completed during the year exceeded the current year depreciation. Total current liabilities increased with the balance on the grant received after August 2017 is reported as unearned revenue.

Financial Analysis

Table 2 shows the change in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

Table 2
Changes in Net Position

	2017	2016
Operating Revenues:		
State Foundation	\$ 4,579,132	\$ 3,944,796
Charges for Services	266,383	240,879
Other	57,677	52,474
Total Operating Revenues	4,903,192	4,238,149
Operating Expenses:		
Salaries	2,548,551	2,368,624
Fringe Benefits	953,661	668,335
Purchased Services	797,924	776,425
Materials and Supplies	315,541	293,984
Depreciation	150,021	132,603
Other	64,461	4,517
Total Operating Expenses	4,830,159	4,244,488
Operating Income (Loss)	73,033	(6,339)
Nonoperating Revenues (Expenses)		
Federal and State Grants	967,557	653,882
Interest Expenses	(141,184)	(141,183)
Total Nonoperating Revenues (Expenses)	826,373	512,699
Change in Net Position	899,406	506,360
Net Position, Beginning of Year	(4,298,442)	(4,804,802)
Net Position, End of the Year	\$ (3,399,036)	\$ (4,298,442)

PATRIOT PREPARATORY ACADEMY
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Management's Discussion and Analysis
For the Year Ended June 30, 2017
(Unaudited)

Although the student population actually decreased, the Academy saw the foundation revenue and federal/state grants both increase over last year thanks to annual increases in funding levels and more students qualifying for the grants. The Academy's operating expenses were higher partly because of the adjustments to fringe benefits from the GASB 68 entries of \$134,658. The Academy also added ten certified employees during fiscal year 2017 increasing the salaries and fringe benefits expenses to increase. The operating activities cash flow of the Academy improved by \$365,148 during fiscal year 2017.

Budget Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on a bi-annual basis.

Capital Assets

At the end of 2017, the Academy had \$3,707,502 (net of \$493,878 in accumulated depreciation) invested in land, buildings and improvements, and furniture and equipment. Table 3 shows the fiscal year 2017 balances compared to fiscal year 2016:

Table 3
Capital Assets at June 30 (net)

	2017	2016	Change
Land/CIP	\$947,200	\$277,100	\$670,100
Building and Improvements	2,670,757	2,800,307	(129,550)
Furniture and Equipment	89,545	83,452	6,093
Totals	\$3,707,502	\$3,160,859	\$546,643

For more information on the Academy's capital assets refer to note 7 of the notes to the financial statements.

Debt

At June 30, 2017, the Academy had one promissory note due to Liberty Christian Academy (former lessor) for \$600,000 with a 5.75% interest rate, term of eighty-four months and final maturity of November 1, 2020 that showed \$322,936 remaining on June 30, 2017. The Academy also has a mortgage through Peoples Bank for purchasing of the facility. The mortgage was for \$2,000,000 with a 5.43% interest rate and final maturity of October 30, 2023 with a current balance of \$1,390,712. The Academy has a line of credit for \$553,000 to finance the renovation construction project with a current balance of \$488,821. For more information on the Academy's debt refer to Note 12 of the notes to the financial statements.

PATRIOT PREPARATORY ACADEMY
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Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2017
(Unaudited)

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of the Academy, 4938 Beatrice Drive, Columbus, Ohio 43227-2113.

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
STATEMENT OF NET POSITION**

AS OF JUNE 30, 2017

Assets:

Current assets:	
Cash and cash equivalents	\$ 657,033
Accounts receivable	2,773
Intergovernmental receivable	<u>2,016,974</u>
Total current assets	<u>2,676,780</u>

Capital assets:	
Nondepreciable capital assets	947,200
Depreciable capital assets	<u>2,760,302</u>
Total capital assets	<u>3,707,502</u>

Total Assets	<u>6,384,282</u>
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Deferred Outflows of Resources:

Pension	<u>1,263,395</u>
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Total Deferred Outflows of Resources	<u>1,263,395</u>
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Liabilities:

Current liabilities	
Accounts payable	139,740
Retainage payable	21,733
Accrued wages and benefits payable	226,353
Intergovernmental payable	37,430
Unearned revenue	1,590,386
Current portion of long term debt	<u>332,587</u>
Total current liabilities	<u>2,348,229</u>

Long term liabilities	
Net Pension Liability	6,500,245
Other long term liabilities	<u>1,901,782</u>
Total long term liabilities	<u>8,402,027</u>

Total Liabilities	<u>10,750,256</u>
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Deferred Inflows of Resources:

Pension	<u>296,457</u>
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Total Deferred Inflows of Resources	<u>296,457</u>
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Net Position:

Net investment in capital assets	1,451,400
Unrestricted	<u>(4,850,436)</u>

Total Net Position	<u>\$ (3,399,036)</u>
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See accompanying notes to the basic financial statements

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
Foundation payments	\$ 4,579,132
Classroom fees	34,040
Donations	16,371
Charges for services	125,308
Extracurricular activities	107,035
Other operating revenues	<u>41,306</u>
Total operating revenues	<u><u>4,903,192</u></u>
Operating expenses:	
Salaries	2,548,551
Fringe benefits	953,661
Purchased services	797,924
Materials and supplies	315,541
Depreciation	150,021
Other operating expenses	<u>64,461</u>
Total operating expenses	<u><u>4,830,159</u></u>
Operating Income	73,033
Non-Operating revenues and expenses:	
Federal grants	645,455
State grants	322,102
Interest and fiscal charges	<u>(141,184)</u>
Total non-operating revenues and expenses	<u><u>826,373</u></u>
Change in net position	899,406
Net position at beginning of year	<u>(4,298,442)</u>
Net position at end of year	<u><u>\$ (3,399,036)</u></u>

See accompanying notes to the basic financial statements

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Increase (decrease) in cash and cash equivalents

Cash flows from operating activities:

Cash received from State of Ohio - Foundation	\$ 4,569,059
Cash received from classroom materials and fees and user fees	271,288
Cash received from other operating revenues	57,606
Cash payments for personal services	(3,344,071)
Cash payments for contract services	(774,259)
Cash payments for supplies and materials	(349,377)
Cash payments for other expenses	(65,098)
Net cash provided by operating activities	<u>365,148</u>

Cash flows from noncapital financing activities:

Cash received from state and federal grants	<u>625,279</u>
Net cash provided by noncapital financing activities	<u>625,279</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets	(558,427)
Principal paid on debt obligations	(314,922)
Interest paid on debt obligations	(141,184)
Net cash used by capital and related financing activities	<u>(1,014,533)</u>

Net change in cash and cash equivalents	(24,106)
Cash and Cash Equivalents at beginning of year	<u>681,139</u>
Cash and Cash Equivalents at end of year	<u><u>657,033</u></u>

Reconciliation of operating income to net cash provided by operating activities:

Operating Income	73,033
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	150,021
Change in assets and liabilities:	
Decrease in accounts receivable	4,834
Increase in intergovernmental receivable	(27,784)
Increase in deferred outflows	(532,381)
Decrease in accounts payable	(6,519)
Increase in accrued wages and benefits	30,637
Increase in intergovernmental payable	6,268
Decrease in deferred inflows	(252,097)
Increase in net pension liability	919,136
	<u>919,136</u>

Net cash provided by operating activities	<u>\$ 365,148</u>
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Non-cash transaction:

The Academy added capital assets of \$138,237 through payables.

See accompanying notes to the basic financial statements

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

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

The Academy was approved for operation under a contract with the Reynoldsburg City Academy Board of Education (the Sponsor) for a period of five years commencing July 1, 2010 and ending June 30, 2015. The contract was renewed and in place for the period July 1, 2015 until June 30, 2017. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy is considered a component unit of the Reynoldsburg City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus.”

The Academy operates under the direction of a five member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy’s instructional/support facility staffed by 30 non-certified and 39 certified employees serving 550 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy’s basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. The Academy uses enterprise accounting to track and report on its financial activities. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

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

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, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

D. Cash and Investments

All monies received by the Academy are accounted for by the Academy's treasurer. All cash received is maintained in accounts in the Academy's name. Monies for the Academy are maintained in bank accounts or temporarily used to purchase short-term investments.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Academy maintains a capitalization threshold of \$5,000. The Academy does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Capital assets are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Building and Improvements	25
Furniture and Equipment	10

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Amounts awarded under the items above for the year ended June 30, 2017 totaled \$5,546,689.

G. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisitions, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10)

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
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Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Unearned Revenue

The Academy entered into a grant agreement with the State of Ohio through the Ohio School Facilities Commission during fiscal year 2017. The Academy may use the grant to expand their facility in two phases: 7,190 square feet which adds four new classrooms in Phase 1, and an additional 16,500 square feet which adds ten new classrooms in Phase 2. The grant is for \$1,912,488 and considered unearned revenue until the construction draw is made against the grant balance. The Academy makes a matching draw request is made against the line of credit. As June 30, 2017, the Academy reported unearned revenue of \$1,590,386.

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

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the certain reported amounts disclosure. Accordingly, actual results may differ from those estimates.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily the State Foundation program and specific charges to the students or users of the Academy. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

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NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the Academy implemented the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 77, *Tax Abatements Disclosures*
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.*
- GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68 and No. 73.*

The implementation of these standards had no impact on the financial position of the Academy.

NOTE 4 – CASH AND CASH EQUIVALENTS

At fiscal year end June 30, 2017, the carrying amount of the Academy's deposits was \$657,033, and the bank balance was \$720,518. Of the bank balance, \$416,561 was not exposed to custodial credit risk as discussed below, while \$303,957 was covered by Federal Deposit Insurance.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

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NOTE 5 – PURCHASED SERVICES

For the fiscal year ended June 30, 2017, purchased services expenses were are as follows:

Food Service	\$	203,729
Professional and Technical		166,519
Sponsorship		123,377
Utilities		62,857
Fiscal Fees		15,588
Legal Services		43,165
Communications		22,096
Travel/Meetings/Transportation		36,458
Equipment Rental/Leasing		22,863
Property Services		84,307
Other		16,965
	\$	797,924

NOTE 6 – RECEIVABLES

Receivables at June 30, 2017, primarily consist of intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considers collectable in full. The largest amount related to the Ohio School Facilities Commission Grant.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017:

	Balance 6/30/16	Additions	Deductions	Balance 6/30/17
Capital Assets Not Being Depreciated				
Land	\$264,600	\$0	\$0	\$264,600
Construction in Progress	12,500	670,100	0	682,600
Total Capital Assets Not Being Depreciated	277,100	670,100	0	947,200
Capital Assets Being Depreciated				
Building and Improvements	3,110,538	0	0	3,110,538
Furniture and Equipment	117,078	26,564	0	143,642
Total Capital Assets Being Depreciated	3,227,616	26,564	0	3,254,180
Less Accumulated Depreciation				
Building and Improvements	(310,231)	(129,550)	0	(439,781)
Furniture and Equipment	(33,626)	(20,471)	0	(54,097)
Total Accumulated Depreciation	(343,857)	(150,021)	0	(493,878)
Total Capital Assets Being Depreciated, Net	2,283,759	(123,457)	0	2,760,302
Capital Assets, Net	\$3,160,859	\$546,643	\$0	\$3,707,502

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NOTE 8 – SPONSORSHIP AGREEMENT

The Academy has entered into a sponsorship agreement with Reynoldsburg City Academy (the Sponsor), whereby, the Sponsor shall receive compensation for services provided to the Academy. The Sponsor shall provide the Academy Treasurer with fiscal oversight and administrative support related to the following:

- A. Support to ensure that the financial records of the Academy are maintained in the same manner as are financial records of Academy, pursuant to rules of the Auditor of State.
- B. Compliance with the policies and procedures regarding internal financial control of the Academy.
- C. Compliance with the requirements and procedures for financial audits by the Auditor of State.

During the fiscal year, the Academy paid the Sponsor \$123,377 in sponsorship fees.

NOTE 9 – RISK MANAGEMENT

A. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During the fiscal year ending June 30, 2017, the Academy contracted with Cincinnati Insurance Company for the following insurance coverage:

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$ 1,000,000
Aggregate	2,000,000
Umbrella liability:	
Each occurrence	5,000,000
Aggregate	5,000,000
Business auto:	
Each occurrence	1,000,000
Employee benefits liability:	
Each occurrence	1,000,000
Aggregate	1,000,000

There was no significant reduction in coverage from the prior year. Settlement amount have not exceeded coverage amounts in each of the past three years.

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Notes to the Basic Financial Statements
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NOTE 9 – RISK MANAGEMENT (continued)

B. Workers' Compensation

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

NOTE 10 -- DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

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NOTE 10 -- DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - School Employees Retirement System (SERS)

Plan Description – The Academy’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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Age 65 with 5 years of service credit; or 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 or \$86 multiplied by the years of service. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. Nothing was allocated to the Health Care Fund for fiscal year 2017.

The Academy’s contractually required contribution to SERS was \$124,052 for fiscal year 2017. Of this amount \$5,394 is reported as an intergovernmental payable.

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Notes to the Basic Financial Statements
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NOTE 10 -- DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - State Teachers Retirement System (STRS)

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

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5% of the 13% member rate goes to the DC Plan and the remaining 1.5% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio has therefore included all three plan options as one defined benefit plan for GASB 68 schedules of employer allocations and pension amounts by employer.

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NOTE 10 -- DEFINED BENEFIT PENSION PLANS (continued)

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

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

The Academy's contractually required contribution to STRS was \$192,360 for fiscal year 2017. Of this amount \$24,688 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the 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>
Proportion of the Net Pension Liability - prior measurement date	0.034286%	0.01311537%	
Proportion of the Net Pension Liability - current measurement date	<u>0.031531%</u>	<u>0.01252487%</u>	
Change in proportionate share	<u>-0.002755%</u>	<u>-0.000591%</u>	
Proportionate Share of the Net Pension Liability	\$2,307,793	\$4,192,452	\$6,500,245
Pension Expense	\$219,403	\$315,838	\$535,241

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Notes to the Basic Financial Statements
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NOTE 10 -- DEFINED BENEFIT PENSION PLANS (continued)

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

Deferred Outflows of Resources			
Differences between expected and actual experience	\$30,811	\$166,721	\$197,532
Net difference between projected and actual earnings on pension plan investments	183,854	348,086	531,940
Changes in proportion share	0	62,454	62,454
Changes in assumptions	154,057	0	154,057
Academy contributions subsequent to the measurement date	<u>124,052</u>	<u>192,360</u>	<u>316,412</u>
Total Deferred Outflows of Resources	<u><u>\$492,774</u></u>	<u><u>\$769,621</u></u>	<u><u>\$1,262,395</u></u>
Deferred Inflows of Resources			
Changes in proportion share and difference between Academy contribution and proportionate share of contributions	\$162,433	\$134,024	\$296,457

\$316,412 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$26,481	\$68,507	\$94,988
2019	25,956	68,507	94,463
2020	99,135	202,617	301,752
2021	<u>54,717</u>	<u>104,606</u>	<u>159,323</u>
Total	<u><u>\$206,289</u></u>	<u><u>\$444,237</u></u>	<u><u>\$650,526</u></u>

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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NOTE 10 -- DEFINED BENEFIT PENSION PLANS (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, 2016, are presented below:

Wage Inflation	3 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results on an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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.

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NOTE 10 -- DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$3,055,374	\$2,307,793	\$1,682,036

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NOTE 10 -- DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

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

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
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, 2016, 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>Allocation</u>	<u>Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	<u>3.00</u>
Total	<u>100.00 %</u>	<u>7.61 %</u>

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NOTE 10 -- DEFINED BENEFIT PENSION PLANS (continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$5,571,427	\$4,192,452	\$3,029,204

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

NOTE 11 – POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Postemployment Benefits

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

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NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Health Care Plan

Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at \$23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015, were \$0, \$0, and \$16,102, respectively. The full amount has been contributed for fiscal years 2017, 2016, and 2015.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

State Teachers Retirement System

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

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS allocated 0 percent of the employer contributions to post-employment health care. The Academy’s contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$0 for all years.

NOTE 12 – DEBT

The Academy has mortgage payable from Peoples Bank and a line of credit during fiscal year 2017. The Academy also has a promissory note payable with Liberty Christian Academy. All of the obligations are secured by the Academy’s building and other assets. The principal paid towards the debt obligations were \$314,922 during fiscal year 2017. Long-term debt outstanding for the Academy as of June 30, 2017 was as follows:

	Description	Balance 06/30/16	Additions	Deletions	Balance 06/30/17	Due Within One Year
(a)	Mortgage	\$1,569,062	\$0	\$178,350	\$1,390,712	\$188,715
(b)	\$600,000 Note	406,419	0	83,483	322,936	88,050
(c)	\$553,000 LOC	532,132	0	43,311	488,821	46,026
(d)	Capital Lease	41,678	0	9,778	31,900	9,796
(e)	Net Pension Liability					
	SERS	1,956,404	351,389	0	2,307,793	0
	STRS	3,624,705	567,747	0	4,192,452	0
	Total	\$8,130,400	\$919,136	\$314,922	\$8,734,614	\$332,587

- (a) The mortgage from People Bank was executed on October 30, 2013, in the amount of \$2,000,000. The mortgage has a maturity date of October 30, 2023. The interest on this obligation is fixed at 5.43 percent. This obligation was the primary security to purchase the Academy’s facility.
- (b) The promissory note from Liberty Christian Academy was effective October 30, 2013 in the amount of \$600,000 to help finance the acquisition of the Academy’s facility. The note matures on November 1, 2020 at an interest rate of 5.75%.
- (c) The line of credit from Peoples Bank was effective July 1, 2015 in the amount of \$553,000 to help finance the construction project to add additional class space to the Academy’s facility. The line of credit matures on December 22, 2025 at an interest rate of 5.62%.
- (d) The capital lease is related to two copiers the Academy entered into an agreement with MT Business Technologies with a final payment due in September 2020.

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Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 12 – DEBT (continued)

- (e) The Academy reports a portion of the unfunded net pension liability with the two retirement systems as described in Note 10.

Principal and interest requirements to retire long term debt, including mortgage and notes outstanding at June 30, 2017 are as follows:

Fiscal Year Ending June 30,	Mortgage Payable		
	Principal	Interest	Total
2018	\$188,715	\$71,845	\$260,560
2019	199,371	61,189	260,560
2020	210,491	50,069	260,560
2021	222,261	38,299	260,560
2022	234,411	26,149	260,560
2023-2024	335,463	14,331	349,794
Total	<u>\$1,390,712</u>	<u>\$261,882</u>	<u>\$1,652,594</u>

Fiscal Year Ending June 30,	\$600,000 Note Payable		
	Principal	Interest	Total
2018	\$88,050	\$16,270	\$104,320
2019	93,249	11,072	104,321
2020	98,754	5,567	104,321
2021	42,883	618	43,501
Total	<u>\$322,936</u>	<u>\$33,527</u>	<u>\$356,463</u>

Fiscal Year Ending June 30,	Line of Credit		
	Principal	Interest	Total
2018	\$46,026	\$26,662	\$72,688
2019	48,718	23,969	72,687
2020	51,510	21,177	72,687
2021	54,580	18,107	72,687
2022	57,773	14,914	72,687
2023-2026	230,214	24,284	254,498
Total	<u>\$488,821</u>	<u>\$129,113</u>	<u>\$617,934</u>

NOTE 13 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the Academy entered into a capitalized lease for copiers. The lease meets the criteria of a capital lease as defined by accounting principles generally accepted in the United States, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease was recorded as the present value of the future minimum lease payments as of the inception date. The Academy made principal payments in fiscal year 2017 totaled \$9,778 and interest payments of \$66.

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
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Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 13 - CAPITALIZED LEASES - LESSEE DISCLOSURE (continued)

The following is a schedule of the lease payments required under the capital leases as of June 30, 2017:

Fiscal Year Ending June 30,	Capital Leases Payable		
	Principal	Interest	Total
2018	\$9,796	\$48	\$9,844
2019	9,813	31	9,844
2020	9,830	14	9,844
2021	2,461	1	2,462
Total	\$31,900	\$94	\$31,994

NOTE 14 – CONTIGENCIES

A. Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability.

B. Academy Funding

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017.

The first ODE adjustment resulted in an adjustment in favor of the Academy of \$10,247, which is recorded as an intergovernmental receivable. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the Academy.

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
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Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 14 – CONTIGENCIES (continued)

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

NOTE 15 – EMPLOYEE BENEFITS

The Academy provides one paid day off for every 14 worked per academic year to all non-administrators. Six of those are sick days and the remainder are personal days. Employees will be reimbursed for each unused personal day at the end of the academic year at a rate equal to the amount paid to daily substitute teachers for that year. Employees receive no reimbursement for unused sick days; however, those days roll over from year-to-year. Administrators receive six sick days and twelve vacation days per academic but are not reimbursed for any unused time.

The Academy offers health insurance through Anthem Blue Cross/Blue Shield. There are six plans available for the employee which costs the Academy \$335/mo for employee only, \$770/mo for employee plus spouse, \$585/mo for employee plus children or \$1,075/mo for employee plus spouse plus children. The Academy pays a flat rate depending on the plan selected. Life insurance is provided for \$50,000 per employee but additional insurance and spousal/dependent child insurance is available at a cost to the employee, which is based on the carriers going rates based on age and amount of coverage requested.

The Academy also provides short-term disability at no cost to the employee for six months of disability leave. Long term disability insurance is available for the employee to purchase.

The Academy has dental and vision insurance available to the employee, spouse and dependent children at a cost to the employee.

The Academy also approved a premium credit incentive for all employees on the Academy's group insurance plan. All employees who complete an annual preventive care visit and submit the necessary paperwork by the due date will receive a \$100 premium credit on the last pay of the calendar year (12/30). Additionally, the spouses on the Academy's group insurance plan will receive a \$100 premium credit if the spouse completes the preventative care visit and paperwork as well.

NOTE 16 – SUBSEQUENT EVENTS

The Academy entered into an additional line of credit with People Bank for the local share of the Ohio School Facilities Commission grant program. The Academy did not draw down on the obligation. During fiscal year 2018, the Academy has drawn down \$536,610 of the \$1,500,000 at September 30, 2017. The line of credit matures on March 8, 2028.

For fiscal year 2018, the Academy changed sponsors to St. Aloysius' Orphanage effective July 1, 2017 through June 30, 2020.

Patriot Preparatory Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Fiscal Four Years (1)

	2016	2015	2014	2013
The Academy's Proportion of the Net Pension Liability	0.031531%	0.034286%	0.036008%	0.036008%
The Academy's Proportion Share of the Net Pension Liability	\$ 2,307,793	\$ 1,956,404	\$ 1,822,344	\$ 2,141,280
The Academy's Covered-Employee Payroll	\$ 1,129,198	\$ 1,368,371	\$ 1,046,307	\$ 966,423
The Academy's Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	204.37%	142.97%	174.17%	221.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available

Amount presented as of the Academy's measurement date, which is the prior fiscal year.

Patriot Preparatory Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Fiscal Four Years (1)

	2016	2015	2014	2013
The Academy's Proportion of the Net Pension Liability	0.01252487%	0.01311537%	0.01268058%	0.01268058%
The Academy's Proportion Share of the Net Pension Liability	\$ 4,192,452	\$ 3,624,705	\$ 3,084,356	\$ 3,674,065
The Academy's Covered-Employee Payroll	\$ 1,285,933	\$ 1,032,193	\$ 1,295,605	\$ 1,312,245
The Academy's Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	326.02%	351.17%	238.06%	279.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available

Amount presented as of the Academy's measurement date, which is the prior fiscal year.

Patriot Preparatory Academy
Required Supplementary Information
Schedule of the Academy's Contributions
School Employees Retirement System of Ohio
Last Seven Fiscal Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contributions	\$ 124,052	\$ 149,167	\$ 180,351	\$ 145,018	\$ 133,753	\$ 107,160	\$ 59,057
Contributions in Relation to the Contractually Required Contribution	<u>(124,052)</u>	<u>(149,167)</u>	<u>(180,351)</u>	<u>(145,018)</u>	<u>(133,753)</u>	<u>(107,160)</u>	<u>(59,057)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Academy Covered-Employee Payroll	\$ 886,086	\$ 1,129,198	\$ 1,368,371	\$ 1,046,307	\$ 966,423	\$ 796,730	\$ 469,824
Contributions as a Percentage of Covered- Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%

(1) The Academy's first fiscal year was 2011.

Patriot Preparatory Academy
 Required Supplementary Information
 Schedule of the Academy's Contributions
 State Teachers Retirement System of Ohio
 Last Seven Fiscal Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contributions	\$ 192,360	\$ 154,312	\$ 144,507	\$ 168,429	\$ 170,592	\$ 141,491	\$ 88,916
Contributions in Relation to the Contractually Required Contribution	<u>(192,360)</u>	<u>(154,312)</u>	<u>(144,507)</u>	<u>(168,429)</u>	<u>(170,592)</u>	<u>(141,491)</u>	<u>(88,916)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Academy Covered-Employee Payroll	\$ 1,374,000	\$ 1,285,933	\$ 1,032,193	\$ 1,295,605	\$ 1,312,245	\$ 1,088,393	\$ 683,967
Contributions as a Percentage of Covered- Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%

(1) The Academy's first fiscal year was 2011.

INDEPENDENT AUDITORS' 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

Patriot Preparatory Academy
Franklin County
4938 Beatrice Drive
Columbus, Ohio 43227

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States 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 Patriot Preparatory Academy (the Academy), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated November 3, 2017.

Internal Controls Over Financial Reporting

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

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

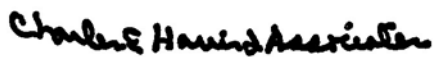
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of 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 we must report under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
November 3, 2017

PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY

For the Year Ended June 30, 2017

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, as of June 30, 2016, reported no material citations or recommendations.

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Dave Yost • Auditor of State

PATRIOT PREPARATORY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 6, 2018**