

DEKALB PREPARATORY ACADEMY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017

DEKALB PREPARATORY ACADEMY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Dekalb Preparatory Academy, Inc.

We have audited the accompanying financial statements of the governmental activities and the major funds of Dekalb Preparatory Academy, Inc. (the Organization), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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.

Auditors' 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 auditors' 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 entity'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 entity'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 respective financial position of the governmental activities and the major funds of the Organization, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with 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 pages 4 - 9 and schedule of contributions - Teachers' Retirement System of Georgia, schedule of proportionate share of the net pension liability- Teachers' Retirement System of Georgia, and budgetary comparison information on pages 33 - 36 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.

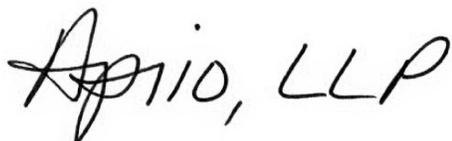
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Organization's basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Aprio, LLP". The signature is written in a cursive, flowing style.

Atlanta, Georgia

November 14, 2017

DEKALB PREPARATORY ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

This section of Dekalb Preparatory Academy's (the Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2017. Please read it in conjunction with the Academy's basic financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, the fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant funds - the General Fund and Food Service Fund.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements consist of three components:

1. Government-wide financial statements.
2. Fund financial statements.
3. Notes to the financial statements.

Reporting the Academy as a Whole - Government-wide Financial Statements

One of the most important questions asked about the Academy is, as a whole, what is the Academy's financial condition as a result of the year's activities? The statement of net position and the statement of activities, which appear first in the Academy's basic financial statements, report information on the Academy, including its activities, which will help you answer this question. The statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the Academy's financial health or financial position.

Over time, increases or decreases in the Academy's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

DEKALB PREPARATORY ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, food services, and other extracurricular activities such as sports and clubs. Unrestricted QBE and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Funds are required to be established by state law to control and manage funds for particular purposes such as restricted funds, the Food Services Fund, and Title I, for example.

Governmental Funds

The Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information help you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

The Academy as Trustee - Reporting the Academy's Fiduciary Responsibilities

The Academy is the trustee, or fiduciary, for its student activity funds. We exclude these activities from the Academy's financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that these assets are used for their intended purposes.

DEKALB PREPARATORY ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

The Academy as a Whole

The statement of net position provides the perspective of the Academy as a whole. The following table provides a summary of the Academy's net position as of June 30:

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u>
Cash	\$ 863,802	\$ 289,153
Accounts receivable:		
Federal government	11,886	52,222
Prepaid items	22,146	50,044
Capital assets, net	<u>210,078</u>	<u>182,314</u>
Total Assets	<u>1,107,912</u>	<u>573,733</u>
	<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Related to defined benefit pension plans	<u>1,693,623</u>	<u>842,338</u>
	<u>LIABILITIES</u>	
Accounts payable	339,576	56,334
Salaries and benefits payable	41,673	237,114
Capital lease payable	-	28,845
Net pension liability	<u>3,554,535</u>	<u>2,329,425</u>
Total Liabilities	<u>3,935,784</u>	<u>2,651,718</u>
	<u>DEFERRED INFLOWS OF RESOURCES</u>	
Related to defined benefit pension plans	<u>17,577</u>	<u>216,977</u>
	<u>NET POSITION</u>	
Investment in capital assets, less related debt	210,078	153,469
Unrestricted	<u>(1,361,904)</u>	<u>(1,606,093)</u>
Total net position, (deficit)	<u>\$ (1,151,826)</u>	<u>\$ (1,452,624)</u>

The above analysis focuses on the net position. The change in net position of the Academy's governmental activities is discussed below. The Academy's net position (deficit) was \$ (1,151,826) at June 30, 2017. Capital assets totaling \$210,078 compares the original cost, less depreciation.

The Academy had no restricted net position.

The \$ (1,361,904) in unrestricted net deficit of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

DEKALB PREPARATORY ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

<u>Program Revenue</u>	<u>2017</u>	<u>2016</u>
Federal grants - Title 1	\$ 100,553	\$ 264,529
Federal grants - USDA	210,808	199,524
Charges for services	<u>20,542</u>	<u>23,599</u>
<u>Total governmental activities</u>	<u>495,879</u>	<u>487,652</u>
 <u>General Revenue</u>		
Dekalb County QBE	4,554,818	3,639,789
Miscellaneous	<u>74,927</u>	<u>42,000</u>
Total general revenue	4,629,745	3,681,789
Total revenue	<u>4,961,648</u>	<u>4,169,441</u>
 <u>Expenses</u>		
Instruction	2,730,385	2,608,862
Support service		
Pupil services	163,196	155,933
Improvement of instructional services	41,745	39,887
Education media services	4,910	4,691
General administration	168,242	160,754
School administration	615,610	588,211
Business support	267,395	255,494
Maintenance and operation of plant	323,706	309,298
Student transportation	9,784	9,348
Food services operation	243,946	233,088
Other support services	83,566	79,847
Interest expense	<u>8,365</u>	<u>3,951</u>
Total expenses	<u>4,660,850</u>	<u>4,449,364</u>
Change in net position	300,798	(279,923)
Net position (deficit), beginning of year	<u>(1,452,624)</u>	<u>(1,172,701)</u>
Net position (deficit) , end of year	<u>\$ (1,151,826)</u>	<u>\$ (1,452,624)</u>

The Academy experienced an increase of net position of \$ 300,798 due to reducing costs by hiring first year teachers, outsourcing and reducing operational expenditures. As discussed above, the net cost shows the financial expenditures of the Academy by each of these functions. Since unrestricted QBE constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

DEKALB PREPARATORY ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the fund balance increased by \$ 463,476. The increase was due to a combination of additional grants, attrition enabling the academy to strategically hire veteran and newly hired staff. Also reducing operational expenditures by making timely payments of invoices thereby reducing late fees.

General Fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

Over the course of the year, the Academy may revise its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The budget was adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of the basic financial statements.

Budgeted expenditures were not increased as the increased costs anticipated and associated with the additional funding and repairs and maintenance were appropriately budgeted in the correct department. There were transfers from the food service fund to the general fund to true up expenditures charges written from operations due to timing of receiving federal food service claim reimbursements.

Significant variances between the final budget and actual amounts are disclosed in the notes to the financial statements.

Capital Assets and Debt Administration

As of June 30, 2017, the Academy had \$53,160 invested in a refresh of computers / capital assets, including furniture and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of \$27,764 from last year.

	<u>2017</u>	<u>2016</u>
Capital assets being depreciated		
Building and improvements	173,937	132,599
Furniture and equipment	482,544	441,334
Total accumulated depreciation	<u>(446,403)</u>	<u>(391,619)</u>
Total capital assets being depreciated, net	<u>\$ 210,078</u>	<u>\$ 182,314</u>

DEKALB PREPARATORY ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

This year's additions of \$82,548 included leasehold improvements, various furniture, and computer equipment.

No major capital projects are planned for the 2017 - 2018 fiscal year. We anticipate conversations surrounding growth and expansion of capital additions in 2018 - 2019.

We will present more detailed information about our capital assets in the notes to the basic financial statements.

Debt

As of June 30, 2017 and 2016, the Academy had no long-term debt outstanding.

Economic Factors and Next Year's Budgets and Rates

Our appointed officials and administration consider many factors when setting the Academy's 2018 fiscal year budget. One of the most important factors affecting the budget is our student enrollment.

The QBE foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The proposed blended count for the 2018 fiscal year is 90% and 10% of the February 2017 and October 2017 student counts, respectively. The 2017/18 budget was adopted in May 2017, based on an estimate of students who will be enrolled in August 2017.

Approximately 83% of total General Fund revenue is from the QBE allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2017 school year, we anticipate that the fall student count will be close to the estimate used in creating the 2017 budget.

Once the final student count and related QBE funding are validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations. We anticipate no significant impact to operations as we understand the QBE per pupil was increased which offset the slight decline in enrollment.

Since the Academy's revenue is heavily dependent on QBE funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. If the State estimates funds are not sufficient to fund the appropriation, the legislature must revise the appropriation or prorating of QBE will occur which will be adversely adjusted by Dekalb County Schools.

REQUESTS FOR INFORMATION

The Management Discussion and Analysis provides a general overview of the finances of the School. Requests for additional information should be addressed to swright@dekalbprepacademy.org.

DEKALB PREPARATORY ACADEMY, INC.
STATEMENT OF NET POSITION
JUNE 30, 2017

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash	\$ 863,802
Accounts receivable:	
Federal government	11,886
Prepaid items	22,146
Capital assets, net	<u>210,078</u>
Total Assets	<u>1,107,912</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u> 	
Related to defined benefit pension plans	<u>1,693,623</u>
 <u>LIABILITIES</u> 	
Accounts payable	339,576
Salaries and benefits payable	41,673
Net pension liability	<u>3,554,535</u>
Total Liabilities	<u>3,935,784</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u> 	
Related to defined benefit pension plans	<u>17,577</u>
 <u>NET POSITION</u> 	
Investment in capital assets, less related debt	210,078
Unrestricted	<u>(1,361,904)</u>
Total net position, (deficit)	<u>\$ (1,151,826)</u>

The notes to the basic financial statements are an integral part of this statement.

DEKALB PREPARATORY ACADEMY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

<u>GOVERNMENTAL ACTIVITIES</u>	<u>PROGRAM REVENUES</u>				Net revenues (expenses) and changes in net <u>position</u>
	2017	2016	Operating Grants and Contributions	Capital Grants and Contributions	
Instruction	\$ 2,730,385	\$ -	\$ -	\$ -	\$ (2,730,385)
Support service					
Pupil services	163,196	-	-	-	(163,196)
Improvement of instructional services	41,745	-	100,553	-	58,808
Education media services	4,910	-	-	-	(4,910)
General administration	168,242	-	-	-	(168,242)
School administration	615,610	-	-	-	(615,610)
Business support	267,395	-	-	-	(267,395)
Maintenance and operation of plant	323,706	-	-	-	(323,706)
Student transportation	9,784	-	-	-	(9,784)
Food services operation	243,946	20,542	210,808	-	(12,596)
Other support services	83,566	-	-	-	(83,566)
Interest expense	8,365	-	-	-	(8,365)
Total Governmental Activities	\$ 4,660,850	\$ 20,542	\$ 311,361	\$ -	(4,328,947)
 <u>General Revenues</u>					
DeKalb County Board of Education					4,554,818
Miscellaneous					74,927
Total General Revenue					4,629,745
Change in net position					300,798
Net position (deficit), beginning of year					(1,452,624)
Net position (deficit), end of year					\$ (1,151,826)

The notes to the basic financial statements are an integral part of this statement.

DEKALB PREPARATORY ACADEMY, INC.
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

ASSETS

	<u>General</u>	<u>School Food Services</u>	<u>Title I</u>	<u>Total Funds</u>
Cash	\$ 793,334	\$ 70,468	\$ -	\$ 863,802
Accounts receivable				
Federal government	-	64	11,822	11,886
Prepaid items	22,146	-	-	22,146
Total assets	\$ 815,480	\$ 70,532	\$ 11,822	\$ 897,834

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 339,571	\$ -	\$ -	\$ 339,571
Salaries and benefit payable	29,851	-	11,822	41,673
Total current liabilities	369,422	-	11,822	381,244

Fund Balances

Nonspendable	22,146	-	-	22,146
Unassigned	423,912	70,532	-	494,444
Total fund balances	446,058	70,532	-	516,590

Total liabilities and fund balances	\$ 815,480	\$ 70,532	\$ 11,822	\$ 897,834
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The notes to the basic financial statements are an integral part of this statement.

DEKALB PREPARATORY ACADEMY, INC.
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

Total Fund Balances - Governmental Funds	\$	516,590
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</p> <p>Capital assets used in Governmental Activities are not financial resources and therefore are not reported as assets in governmental funds. These assets consist of:</p>		
Building and improvements		173,937
Furniture and equipment		482,544
Accumulated depreciation		<u>(446,403)</u>
Total capital assets		210,078
<p>Some liabilities are not due and payable in the current period and therefore, are not reported in the funds.</p>		
Net pension liability		(3,554,535)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.</p>		
		<u>1,676,041</u>
Net position (deficit) of governmental activities	\$	<u><u>(1,151,826)</u></u>

The notes to the basic financial statements are an integral part of this statement.

DEKALB PREPARATORY ACADEMY, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Revenues</u>	<u>General</u>	School Food <u>Services</u>	<u>Title I</u>	<u>Total Funds</u>
DeKalb County Board of Education	\$ 4,554,818	\$ -	\$ -	\$ 4,554,818
Federal funds	-	210,808	100,553	311,361
Interest income	803	-	-	803
Charges for service	70,907	20,542	-	91,449
Fund raising and donations	<u>3,217</u>	<u>-</u>	<u>-</u>	<u>3,217</u>
Total revenues	<u>4,629,745</u>	<u>231,350</u>	<u>100,553</u>	<u>4,961,648</u>
 <u>Expenditures</u>				
Instruction	2,438,605	-	86,652	2,525,257
Support service				
Pupil services	157,519	-	-	157,519
Improvement of instructional services	40,540	-	-	40,540
Education media services	4,686	-	-	4,686
General administration	162,446	-	-	162,446
School administration	554,176	-	13,901	568,077
Business support	258,887	-	-	258,887
Other support services	83,566	-	-	83,566
Maintenance and operation of plant	323,706	-	-	323,706
Student transportation	9,784	-	-	9,784
Food services operation	-	243,946	-	243,946
Capital outlay	82,548	-	-	82,548
Debt service				
Capital lease	28,845	-	-	28,845
Interest	<u>8,365</u>	<u>-</u>	<u>-</u>	<u>8,365</u>
Total expenditures	<u>4,153,673</u>	<u>243,946</u>	<u>100,553</u>	<u>4,498,172</u>
Revenues over (under) expenditures	<u>476,072</u>	<u>(12,596)</u>	<u>-</u>	<u>463,476</u>
 <u>Other Financing Sources (Uses)</u>				
Transfers in	-	82,128	-	82,128
Transfers out	<u>(82,128)</u>	<u>-</u>	<u>-</u>	<u>(82,128)</u>
Net change in fund balances	393,944	69,532	-	463,476
Fund balances - beginning	<u>52,114</u>	<u>1,000</u>	<u>-</u>	<u>53,114</u>
Fund balances - ending	<u>\$ 446,058</u>	<u>\$ 70,532</u>	<u>\$ -</u>	<u>\$ 516,590</u>

The notes to the basic financial statements are an integral part of this statement.

DEKALB PREPARATORY ACADEMY, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

Total change in fund balances - Governmental Funds \$ 463,476

Amounts reported for Governmental Activities in the
Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current periods, these amounts are:

Capital outlay	82,548	
Depreciation expense	<u>(54,784)</u>	
Excess of capital outlay over depreciation expense		27,764

Capital leases provide current financial resources to governmental funds, while the repayment of the capital leases are not due and payable in the current period and therefore, are not reported in the funds. 28,845

District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the Districts report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

Pension expense		<u>(219,287)</u>
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Change in Net Position of Governmental Activities		<u><u>\$ 300,798</u></u>
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The notes to the basic financial statements are an integral part of this statement.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note A

Description of Organization and Reporting Entity

Dekalb Preparatory Academy, Inc. (the Organization) is a non-profit corporation formed pursuant to Georgia law and operates a charter school in Decatur, Georgia by virtue of an agreement with the Dekalb County Board of Education (the Dekalb Board) and the Georgia State Board of Education. The initial agreement expired June 30, 2017, and was renewed for a term of 2 years beginning July 1, 2017, and authorizes the Organization to provide public education to students in grades K-8 in the Dekalb County school district. The Organization conducted its first year of operations in 2012-2013 and receives most of its funding under the Quality Basic Education Act (QBE) based on the number of students enrolled.

Note B

Summary of Significant Accounting Policies

The accompanying financial statements of the Organization have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the Organization's accounting policies are described below.

Basis of Presentation:

The Organization is reported as a government entity and operates as a component unit of the Dekalb County Board of Education. Its basic financial statements are collectively comprised of the government-wide financial statements, fund financial statements, and notes to the basic financial statements. The government-wide statements focus on the Organization as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the information's usefulness.

For years prior to June 30, 2017, the Organization's financial statements were prepared on an accrual basis in conformity with GAAP. Effective with the June 30, 2017, financial statements, the Organization is reported as a component unit of Dekalb County Board of Education as prescribed by the GASB. The effect of this change in basis of accounting had the effect of reducing the net position as of June 30, 2016, from the previously reported amount of \$521,633 to the adjusted amount of (\$1,452,624) for a difference of (\$1,974,257). The adjustments recorded related to the recognition of the Teachers Retirement System obligation and removal of the donated rent revenue which is not allowed under GASB.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note B

Summary of Significant Accounting Policies (Continued)

Government-Wide Statements:

The Statement of Net Position and the Statement of Activities display information about the financial activities of the overall Organization, except fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions.

The Statement of Net Position presents the Organization's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in 3 categories as follows:

- a. Net investment in capital assets consists of the Organization's total investment in capital assets, net of accumulated depreciation, and reduced by any outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- b. Restricted net position consists of resources for which the Organization is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties or imposed by law through constitutional provisions or enabling legislation.
- c. Unrestricted net position consists of resources not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Organization's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the Organization related to the administration and support of Organization programs, such as office and maintenance personnel and accounting) are not allocated to programs.

Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note B

Summary of Significant Accounting Policies (Continued)

Fund Financial Statements:

The fund financial statements provide information about the Organization's funds including fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The emphasis of fund financial statements is on major governmental funds.

The Organization reports the following major funds:

- General Fund is the Organization's primary operating fund. It accounts for all financial resources of the Organization, except for those resources required to be accounted for in another fund.
- School Food Service Fund accounts for the operation of the Organization's food services which serves breakfast and lunch.
- Title I Fund is a special revenue fund that is used to account for a federal grant which flows through the Georgia State Board of Education. The program provides financial assistance to local education agencies (LEAs) with high numbers or high percentages of children from low-income families to help ensure that all children meet state academic standards.

Basis of Accounting:

The basis of accounting determines when transactions are reported on the financial statements. The Government-wide governmental financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of when the related cash flows take place. Non-exchange transactions, in which the Organization gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Organization uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note B

Summary of Significant Accounting Policies (Continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Organization considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year end. The Organization considers all intergovernmental revenues to be available if they are collected within 120 days after year end. Interest is considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. Capital asset acquisitions are reported as expenditures in governmental funds.

The Organization funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Organization's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

New Accounting Pronouncements:

In fiscal year 2017, the School adopted Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68*, and *Amendments to Certain Provisions of GASB Statements No. 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The adoption of this statement does not have a significant impact on the Organization's financial statements.

Income Taxes:

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended, and accordingly pays no income taxes. In accordance with FASB ASC 740, the Organization believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements. The Organization is no longer subject to income tax examinations for fiscal years up to and including 2013.

Cash:

Cash consists of cash on hand and demand deposits in authorized financial institutions.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note B

Summary of Significant Accounting Policies (Continued)

Composition of Deposits:

Official Code of Georgia Annotated Section 45-8-14 authorizes the Organization to deposit its funds in one or more solvent banks, insured Federal savings and loan associations or insured chartered building and loan associations.

Receivables:

Receivables consist of amounts due from grant reimbursements due on Federal, State or other grants for expenditures made but not reimbursed and other receivables disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

Prepays:

Payments made to vendors for services that will benefit periods subsequent to June 30, 2017, are recorded as prepaid items.

Capital Assets:

On the government-wide financial statements, capital assets are recorded at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Donated capital assets are recorded at estimated fair value on the date donated. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. The Organization does not capitalize book collections.

Capital acquisition and construction are recorded as expenditures in the governmental fund financial statements at the time of purchase (including ancillary charges) and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is computed using the straight-line method for all assets and is used to allocate the actual or estimated historical cost of capital assets over useful lives.

The Organization does not have a formal capitalization policy. Expenditures to be capitalized are left to the discretion of the Finance Director. Estimated useful lives of capital assets reported in the Government-wide statements are as follows:

Building Improvements	10 years
Furniture and equipment	the lesser of the life of the lease or 3 -10 years

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note B

Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. This separate financial statement element, represents a consumption of resources that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and/or the balance sheet will report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of resources that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences:

Compensated absences payable consists of vacation leave employees earned based on services already rendered. Members of the Teacher Retirement System of Georgia (TRS) may apply unused sick leave toward early retirement. The liability for early retirement will be borne by TRS rather than by the individual schools. Otherwise, sick leave does not vest with the employee, and no liability is reported in the Organization's financial statements.

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balances:

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note B

Summary of Significant Accounting Policies (Continued)

The Organization's fund balances are classified as follows:

- a. Non-spendable consists of resources that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted consists of resources that can be used only for specific purposes pursuant to constraints either (1) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- c. Committed consists of resources that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees (the Board). The Board is the Organization's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. Assigned consists of resources constrained by the Organization's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the Board or (2) the budget or finance committee, or the Superintendent, or designee, to assign amounts to be used for specific purposes.
- e. Unassigned consists of resources within the general fund not meeting the definition of any aforementioned category. The general fund can have either a positive or negative fund balance. Other funds can only have a negative unassigned fund balance if expenditures exceed the amounts available in the nonspendable, restricted, and committed classifications. These other funds should only report a negative unassigned fund balance only after all assigned amounts have been eliminated.

Use of Estimates:

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

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note C

Subsequent Events

The Organization has evaluated subsequent events for potential recognition and disclosure through November 14, 2017, the date the financial statements were available to be issued.

Note D

Budgetary Data

The budget is a complete financial plan for the Organization's fiscal year, and is based upon careful estimates of expenditures together with probable funding sources. The budget is legally adopted each year for the general fund and school food service fund.

There is no statutory prohibition regarding over expenditure of the budget at any level. The budget for all governmental funds, except the various school activity (principal) accounts, is prepared and adopted by fund, function and object. The legal level of budgetary control was established by the Board at the aggregate function level. The budget for the general fund and the school food service fund was prepared in accordance with accounting principles generally accepted in the United States of America.

The budgetary process begins with the Organization's administration presenting an initial budget to the finance committee for review and approval which is then presented to the Board for review and approval. The administration makes revisions as necessary based on the Board's guidelines and the budget is approved. After approval of the budget by the Board, the budget is advertised by publication to the Organization's website. All unexpended budget authority lapses at fiscal year end.

See the General and School Food Service Funds Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual in the Supplementary Information Section for a detail of any over/under expenditures during the fiscal year under review.

Note E

Deposits

Collateralization of Deposits:

Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than 10 days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note E

Deposits (Continued)

The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110% of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (O.C.G.A. Section 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110% of the daily pool balance.

Acceptable security for deposits consists of any one or any combination of the following:

1. Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia.
2. Insurance on accounts provided by the Federal Deposit Insurance Corporation.
3. Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia.
4. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia, and
5. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for that purpose,
6. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
7. Bonds, bills, notes, certificates of indebtedness, or other obligations of subsidiary corporations of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. At June 30, 2017, the Organization had deposits in one financial institution with a book balance of \$863,802 and a bank balance of \$870,860. Bank balances are insured by Federal depository insurance up to \$250,000 at each bank. At June 30, 2017, \$620,860 was not collateralized or insured.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note F

Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets being depreciated				
Building and improvements	132,599	41,338	-	173,937
Furniture and equipment	441,334	41,210	-	482,544
Total accumulated depreciation	<u>(391,619)</u>	<u>(54,784)</u>	<u>-</u>	<u>(446,403)</u>
Total capital assets being depreciated, net	<u>\$ 182,314</u>	<u>\$ 27,764</u>	<u>\$ -</u>	<u>\$ 210,078</u>

Depreciation expense was charged to functions as follow:

Instruction	\$ 37,802
Support services:	
Pupil services	1,370
Instruction improvement	1,205
Media services	164
General administration	2,191
School administration	8,765
Business support services	<u>3,287</u>
	<u>\$ 54,784</u>

Note G

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; and acts of God.

The Organization has obtained commercial insurance for risk of loss associated with torts, assets and errors or omissions, job related illness or injuries to employees and acts of God.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note H

Significant Contingent Liabilities

Amounts received or receivable principally for expenditure of Federal funds are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The Organization believes that such disallowances, if any, will be immaterial.

Note I

Operating Leases

The Organization has entered into various leases as lessee which are considered for accounting purposes to be operating leases. Lease expenditures for governmental funds amounted to \$37,210 for equipment. The lease agreements are summarized below.

The Organization leases office equipment under non-cancelable operating lease agreements expiring on various dates through March 2020.

Future minimum lease payments for these leases are as follows:

<u>Year Ending</u>	<u>Governmental Funds</u>
2018	\$ 29,080
2019	29,080
2020	<u>18,013</u>
Total	<u>\$ 76,173</u>

Note J

Fund Balance Classification Details

When multiple categories of fund balance are available for expenditure, the Organization will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note K

Retirement Plans

The Organization participates in various retirement plans administered by the State of Georgia, as further explained below.

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

1. **Plan Description:** All teachers of the Organization as defined in O.C.G.A. §47-3-60 and certain other support personnel as defined by §47-3-63 are provided a pension through the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple-employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. The Teachers' Retirement System of Georgia issues a publicly available separate financial audit report that can be obtained at www.trsga.com/publications.
2. **Benefits Provided:** TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. 10 years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.
3. **Contributions:** Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Pursuant to O.C.G.A. §47-3-63, the employer contributions for certain full-time public school support personnel are funded on behalf of the employer by the State of Georgia. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6% of their annual pay during fiscal year 2017. The Organization's contractually required contribution rate for the year ended June 30, 2017, was 14.27%. For the current fiscal year, employer contributions to the pension plan were \$276,091.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note K

Retirement Plans (Continued)

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

At June 30, 2017, the Organization reported a liability of \$3,554,535 for its proportionate share of the net pension liability for TRS. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2017, was determined using standard roll-forward techniques. The Organization's proportion of the net pension liability was based on contributions to TRS during the fiscal year ended June 30, 2016.

At June 30, 2017, the Organization's TRS proportion was 0.017229%, which was an increase of 0.001928% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Organization recognized pension expense of \$304,100 for TRS.

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

	Deferred Outflow of <u>Resources</u>	Deferred Inflow of <u>Resources</u>
Differences between expected and actual experience	\$ 52,953	\$ 17,577
Changes of assumptions	92,129	-
Net difference between projected and actual earnings on pension plan investments	449,663	-
Changes in proportion and differences between Organization contributions and proportionate share of contributions	706,702	-
Organization contribution subsequent to the measurement date	<u>392,176</u>	<u>-</u>
Total	<u>\$ 1,693,623</u>	<u>\$ 17,577</u>

DEKALB PREPARATORY ACADEMY, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Note K

Retirement Plans (Continued)

Organization contributions subsequent to the measurement date of June 30, 2016, for TRS are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u>	<u>TRS</u>
2018	\$ 312,464
2019	312,464
2020	400,061
2021	239,634
2022	<u>19,247</u>
Total	<u>\$ 1,283,870</u>

Actuarial Assumptions: The total pension liability as of June 30, 2016, was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Teachers Retirement System:

Inflation	2.75%
Salary increase	3.75 - 9.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females set back 2 years for males and set back 3 years for females. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2009 - June 30, 2014. The long-term expected rate of return on TRS pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

DEKALB PREPARATORY ACADEMY, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Note K

Retirement Plans (Continued)

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

	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Fixed income	30.00 %	(0.50)%
Domestic large stocks	39.80	9.00
Domestic mid stocks	3.70	12.00
Domestic small stocks	1.50	13.50
International developed market stocks	19.40	8.00
International emerging market stocks	<u>5.60</u>	12.00
Total	<u>100.00 %</u>	

* Rates shown are net of the 2.75% assumed rate of inflation

Discount Rate: The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the TRS pension plan's fiduciary net position was projected to be available to make all projected 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 benefit payments to determine the total pension liability.

Sensitivity of the Organization's proportionate share of the net pension liability to changes in the discount rate: The following presents the Organization's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Organization's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

DEKALB PREPARATORY ACADEMY, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

Note K

Retirement Plans (Continued)

Teachers Retirement System:

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Organization's proportionate share of the net pension liability	<u>\$ 5,532,677</u>	<u>\$ 3,554,535</u>	<u>\$ 1,925,861</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report which is publicly available at www.trsga.com/publications.

REQUIRED SUPPLEMENTARY INFORMATION

DEKALB PREPARATORY ACADEMY, INC.
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHERS' RETIREMENT SYSTEM OF GEORGIA
 FOR THE YEAR ENDED JUNE 30, 2017

<u>Year Ended</u>	<u>School's proportion of the net pension liability</u>	<u>School's proportionate share of the net pension liability</u>	<u>School's covered employee payroll</u>	<u>School's proportionate share of the net pension liability as a percentage of the covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2017	0.017229 %	\$ 3,554,535	\$ 2,398,836	67.49 %	76.06 %
2016	0.015301	2,329,425	2,168,181	93.08	81.44
2015	0.014928	1,885,956	2,699,781	143.15	84.03

The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

DEKALB PREPARATORY ACADEMY, INC.
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 TEACHERS' RETIREMENT SYSTEM OF GEORGIA
 FOR THE YEAR ENDED JUNE 30, 2017

<u>Year Ended</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>School's covered- employee payroll</u>	<u>Contribution as a percentage of covered-employee payroll</u>
2017	\$ 456,578	\$ 456,578	\$ -	\$ 2,398,836	19.03 %
2016	374,910	374,910	-	2,168,181	17.29
2015	305,689	305,689	-	2,699,781	11.32
2014	-	-	-	-	-
2013	-	-	-	-	-
2012	-	-	-	-	-
2011	-	-	-	-	-
2010	-	-	-	-	-
2009	-	-	-	-	-
2008	-	-	-	-	-
2007	-	-	-	-	-

The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMANTION
FOR THE YEAR END JUNE 30, 2017

Teachers Retirement System

Changes of assumptions: In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30, 3 years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2016, reported in that schedule:

Valuation date	June 30, 2013
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5 years smoothed market
Inflation rate	3.00%
Salary increases	3.75 - 7.00%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

DEKALB PREPARATORY ACADEMY, INC.
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMANTION
FOR THE YEAR END JUNE 30, 2017

	<u>Nonappropriated Budgets</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Over)/Under</u>
<u>Revenues</u>				
Dekalb County Board of Education	\$ 3,771,600	\$ 3,771,600	\$ 4,554,818	\$ (783,218)
Title I	173,255	173,555	100,553	73,002
School lunch	227,155	227,155	231,350	(4,195)
Fund raising and donations	20,400	20,400	3,217	17,183
Student activities	33,000	33,000	70,907	(37,907)
Miscellaneous	<u>2,500</u>	<u>2,500</u>	<u>803</u>	<u>1,697</u>
Total revenue	<u>4,227,910</u>	<u>4,228,210</u>	<u>4,961,648</u>	<u>(733,438)</u>
<u>Expenditures</u>				
Instruction	2,387,332	2,387,332	2,525,257	(137,925)
Support services				
Pupil services	148,916	148,916	157,519	(8,603)
Improvement of instructional services	38,326	38,326	40,540	(2,214)
Education media services	4,430	4,430	4,686	(256)
General administration	153,573	153,573	162,446	(8,873)
School administration	537,050	537,050	568,077	(31,027)
Business support	244,747	244,747	258,887	(14,140)
Other support services	79,002	79,002	83,566	(4,564)
Maintenance and operation of plant	306,026	306,026	323,706	(17,680)
Student transportation	9,250	9,250	9,784	(534)
Food services operation	230,622	230,622	243,946	(13,324)
Capital outlay	78,039	78,039	82,548	(4,509)
Capital lease	27,111	27,111	28,845	(1,734)
Interest	<u>7,908</u>	<u>7,908</u>	<u>8,365</u>	<u>(457)</u>
Total expenditures	<u>4,252,332</u>	<u>4,252,332</u>	<u>4,498,172</u>	<u>(245,840)</u>
Excess (deficiency) of revenues over (under) expenditures	(24,422)	(24,422)	463,476	(487,898)
Net change in fund balances	(24,422)	(24,422)	463,476	(487,898)
Fund balances (deficit) - beginning	<u>53,114</u>	<u>53,114</u>	<u>53,114</u>	<u>-</u>
Fund balances (deficit) - ending	<u>\$ 28,692</u>	<u>\$ 28,692</u>	<u>\$ 516,590</u>	<u>\$ (487,898)</u>

BASIS OF PRESENTATION

The accompanying schedule is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

The notes to the basic financial statements are an integral part of this statement.

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

To the Board of Trustees

Avondale Education Association, Inc. dba The Museum School of Avondale Estates

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 governmental activities, and each major fund, and the aggregate remaining fund information of the Organization, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated October 24, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 entity'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses.

Findings 2017-002 and 2017-003.

Compliance and Other Matters

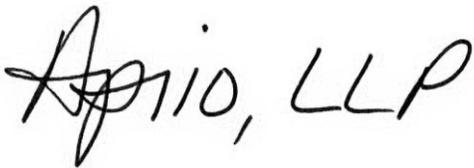
As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 one instance of noncompliance that is described as finding 2017-001 and is required to be reported under *Government Auditing Standards*.

Management's Response to Findings

Management's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Aptio, LLP". The signature is written in a cursive, flowing style.

Atlanta, Georgia

November 14, 2017

DEKALB PREPARATORY ACADEMY, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

Finding 2017-001: Compliance with O.C.G.A Section 45-8-12

Condition: The Organization did not obtain collateral from its financial institution or ensure that its funds were pooled in a collateralized account for the public funds which exceeded FDIC insurance.

Criteria: Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral as described by the statute.

Cause: Management was not aware that collateral was required as they had not previously reported under *Government Auditing Standards*.

Effect: Public funds are unsecured creating custodial credit risk where a bank failure could cause the organization to lose some or all of its unsecured deposits. At June 30, 2017, the Organization had deposits with the financial institution totaling \$870,860. Bank balances of \$250,000 were insured by Federal depository insurance, leaving unsecured bank balances of \$620,860.

Recommendation: We recommend that the Organization notify the financial institution that its deposits are public funds and should either be collateralized, secured, or insured as required by the statute.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and are in the process of correcting the issue.

Finding 2017-002: Revenue and the related expenditures from Title I program are not being completely recorded in financial records

Condition: During the audit we determined that the Organization is receiving funding from Title I federal funding, some of which is not being recorded in the financial records. The process for receiving Title I funding is for the school to submit invoices and approved purchase orders to Dekalb County School System for supplies and salary and related salary expenditures, and the Dekalb County School System pays the invoices directly to the vendor or in the case of salaries and salary related expenditures, reimburses the Organization. The expenditures and revenue related to the supply orders are not recorded in the financial records.

Criteria: All funding and related expenditures, whether in the form of direct reimbursements or payment of invoices, must be recorded in the financial records.

Cause: Internal controls were not in place to effectively monitor the receipt of supplies related to the Title I Program and the associated recording of the expenditures and revenue.

DEKALB PREPARATORY ACADEMY, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

Finding 2017-002: Revenue and the related expenditures from Title I program are not being completely recorded in financial records (Continued)

Effect: Federal expenditures and revenues are understated. The Organization is not tracking its Federal funding, which could result in the Organization not receiving all funding that it is due under this program.

Recommendation: We recommend that the Organization put in place controls to monitor the Title I Program's revenue, expenditures and budget.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and have corrected the issue.

Finding 2017-003: Financial records are not being maintained using fund accounting as required by the Georgia Department of Education.

Condition: Financial records are not being maintained using fund accounting as required by the Georgia Department of Education.

Criteria: Financial records are required to be maintained by the Organization using fund accounting.

Cause: The Organization did not maintain financial records using fund accounting.

Effect: At year end, there was a time consuming process to convert the financial records to the format required by the Georgia Department of Education.

Recommendation: We recommend that the Organization process receipts and invoices using the Department of Education's chart of accounts.

Views of Responsible Officials and Planned Corrective Actions: The financial records were not maintained using the Department of Education of Education chart of accounts in the year under audit. Since year end, the Finance Director is properly coding invoices and receipts with the fund, function and object to align with fund accounting standards.