bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

DISCOVERY ACADEMY
LUCAS COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2019
Fiscal Year Audited Under GAGAS: 2019

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PO Box 875 • 129 Pinckney Street • Circleville, OH 43113 • (740) 474-5210 • FAX (740) 474-7319
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OHIO AUDITOR OF STATE
KEITH FABER

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Governing Board
Discovery Academy
c/o The Leona Group LLC
2125 University Park Drive
Okemos, MI 48864

We have reviewed the *Independent Auditor's Report* of the Discovery Academy, Lucas County, prepared by BHM CPA Group, Inc., for the audit period July 1, 2018 through June 30, 2019. 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 Discovery Academy is responsible for compliance with these laws and regulations.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

February 11, 2020

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DISCOVERY ACADEMY
YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Discovery Academy
Lucas County
2125 University Park Drive
Okemos, Michigan 48864

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Discovery Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Discovery Academy, Lucas County as of June 30, 2019, and the changes in its 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 this presentation to include *management's discussion and analysis* and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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.

BHM CPA Group

BHM CPA Group
Piketon, Ohio
December 13, 2019

The management's discussion and analysis of Discovery Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in its Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

In 2019,

Total net position was $(1,411,694).
Total assets were $1,017,282.
Total deferred outflows of resources were $1,893,033.
Total liabilities were $3,576,372.
Total deferred inflows of resources were $745,637.

Using this Annual Report

This report includes the MD&A, 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 change in net position, and a statement of cash flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how the Academy did financially during fiscal year 2019. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and change in net position. This change in net position is important because it tells the reader whether the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

This report also includes required supplementary information concerning the Academy's net other post-employment benefits (OPEB) asset, net pension liability and net OPEB liability, and notes to the required supplementary information.

The Academy uses enterprise presentation for all of its activities.

Statement of Net Position

Table I provides a summary of the Academy's net position for fiscal years 2019 and 2018:

TABLE 1	Governmental Activities	
	June 30	
	2019	2018
Assets		
Current assets	$ 775,449	$ 513,842
Capital assets - net	67,589	110,900
Noncurrent assets	15,000	15,000
Net OPEB asset	159,244	-
Total assets	1,017,282	639,742
Deferred Outflows of Resources		
Pension	1,811,509	2,497,477
OPEB	81,524	67,039
Total deferred outflows of resources	1,893,033	2,564,516
Liabilities		
Current liabilities	286,644	254,006
Noncurrent liabilities		
Due in more than one year		
Net pension liability	2,926,790	3,065,654
Net OPEB liability	362,938	749,895
Total liabilities	3,576,372	4,069,555
Deferred Inflows of Resources		
Pension	394,877	352,225
OPEB	350,760	132,600
Total deferred inflows of resources	745,637	484,825
Net Position		
Invested in capital assets	67,589	110,900
Unrestricted	(1,479,283)	(1,461,022)
Total net position	$(1,411,694)	$(1,350,122)

Statement of Net Position (continued)

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2019 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." In a prior period, the Academy also adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and the net OPEB asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB asset/liability to equal the Academy's proportionate share of each plan's collective:

a) present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
b) minus plan assets available to pay these benefits

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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. For STRS, the plan's fiduciary net OPEB position was sufficient to cover the plan's total OPEB liability resulting in a net OPEB asset for fiscal year 2019 that is allocated to each school based on its proportionate share. The retirement system is responsible for the administration of the pension and OPEB plans.

Statement of Net Position (continued)

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB asset/liability, respectively, not accounted for as deferred inflows/outflows.

Total net position for the Academy decreased $61,572. Cash was $565,155. Total receivables increased by $88,071 primarily due to higher amounts accrued for Title I and a year-end foundation adjustment. Accounts payable decreased $40,540 due to timelier submission of invoices for payment. Contracts payable increased by $24,086 in part due to increased uncollected management fees.

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Change in Net Position

Table 2 shows the change in net position for fiscal years 2019 and 2018, as well as a listing of revenues and expenses.

TABLE 2

	Governmental Activities	
	For the year ended June 30	
	2019	2018
Operating Revenues		
Foundation payments	$ 2,863,616	$ 2,310,736
Other revenues	71,578	83,843
Total operating revenues	2,935,194	2,394,579
Operating Expenses		
Salaries	1,621,174	1,333,358
Fringe benefits	729,781	(257,117)
Other purchased services	1,462,909	1,335,370
Materials and supplies	250,552	140,218
Depreciation (unallocated)	43,015	46,185
Other expenses	48,549	36,809
Total operating expenses	4,155,980	2,634,823
Operating loss	(1,220,786)	(240,244)
Nonoperating Revenues and Expenses		
Federal grants	650,210	526,027
State grants	501,748	442,731
Contributions and donations	7,708	3,392
Rental Income	8,800	10,400
Loss on disposal of capital assets	(296)	-
Special assessments	(8,956)	-
Refund of prior year expenses		7,692
Refund of prior year revenues		(90)
Total nonoperating revenues and expenses	1,159,214	990,152
Increase (decrease) in net position	(61,572)	749,908
Net position beginning of year	(1,350,122)	(2,100,030)
Net Position End of Year	$ (1,411,694)	$ (1,350,122)

Change in Net Position (continued)

Net position decreased by $61,572. Foundation payments increased $552,880 due to higher enrollment. Fringe benefits increased $986,898 due to the net effect of increase in pension- and OPEB-related costs and increase in enrollment. Increases in salaries of $287,816 and other purchased services of $127,539 are due to increased enrollment.

Capital Assets

At the end of fiscal year 2019, the Academy had $67,589 invested in furniture, fixtures, and equipment (net of depreciation). Table 3 shows capital assets (net of depreciation) for fiscal years 2019 and 2018.

TABLE 3	**Net Capital Assets** June 30	
	2019	2018
Furniture, fixtures and equipment	$ 67,589	$ 110,900
Total capital assets	$ 67,589	$ 110,900

For more information on capital assets, see Note 6 to the basic financial statements.

Current Financial Issues

Discovery Academy was formed in 2013 under a contract with the Ohio Department of Education. During the 2018-2019 school year there were 339 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2019 amounted to $2,863,616.

Contacting the Academy's Financial Management

The financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact:

Melinda Benkovsky
Director of Budget and Finance
The Leona Group, LLC
2125 University Park Drive, Okemos, MI 48864
melinda.benkovsky@leonagroup.com

DISCOVERY ACADEMY
Lucas County, Ohio
Statement of Net Position
June 30, 2019

Assets	
Current Assets	
Cash and cash equivalents	$ 565,155
Intergovernmental receivable	210,294
Total current assets	775,449
Noncurrent Assets	
Security deposits	15,000
Depreciable capital assets, net	67,589
Net OPEB asset	159,244
Total noncurrent assets	241,833
Total Assets	1,017,282
Deferred Outflows of Resources	
Pension	1,811,509
OPEB	81,524
Total Deferred Outflows of Resources	1,893,033
Liabilities	
Current Liabilities	
Accounts payable	11,655
Contracts payable	25,221
Accrued wages payable	210,728
Intergovernmental payable	4,038
STRS-SERS payable	35,002
Total noncurrent liabilities	286,644
Noncurrent Liabilities	
Due in more than one year	
Net pension liability	2,926,790
Net OPEB liability	362,938
Total noncurrent liabilities	3,289,728
Total Liabilities	3,576,372
Deferred Inflows of Resources	
Pension	394,877
OPEB	350,760
Total Deferred Inflows of Resources	745,637
Net Position	
Net investment in capital assets	67,589
Unrestricted (deficit)	(1,479,283)
Total Net Position	$(1,411,694)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DISCOVERY ACADEMY
Lucas County, Ohio
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended June 30, 2019

Operating Revenues	
Foundation payments	$ 2,863,616
Other revenues	71,578
Total operating revenues	2,935,194
Operating Expenses	
Salaries	1,621,174
Fringe benefits	729,781
Other purchased services	1,462,909
Materials and supplies	250,552
Depreciation	43,015
Other	48,549
Total operating expenses	4,155,980
Operating Loss	(1,220,786)
Nonoperating Revenues and Expenses	
Federal grants	650,210
State grants	501,748
Contributions and donations	7,708
Rental income	8,800
Loss on disposal of capital assets	(296)
Special assessments	(8,956)
Total nonoperating revenues and expenses	1,159,214
Change in Net Position	(61,572)
Net Position Beginning of Year	(1,350,122)
Net Position End of Year	$(1,411,694)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DISCOVERY ACADEMY
Lucas County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash received from State of Ohio	$ 2,831,756
Cash received from other operating revenues	68,957
Cash payments to suppliers for goods and services	(3,815,282)
Net Cash Used for Operating Activities	(914,569)
Cash Flows from Noncapital Financing Activities	
Federal grants received	580,312
State grants received	499,026
Rental income	8,800
Net Cash Provided by Noncapital Financing Activities	1,088,138
Net Increase in Cash and Cash Equivalents	173,569
Cash and Cash Equivalents at Beginning of Year	391,586
Cash and Cash Equivalents at End of Year	$ 565,155

(Continued)

DISCOVERY ACADEMY
Lucas County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019
(continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating loss	$ (1,220,786)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	43,015
Noncash equipment donation	7,708
Changes in assets and liabilities:	
Decrease in accounts receivable	20
Increase in intergovernmental receivable	(16,611)
Decrease in prepaid items	34
Increase in net OPEB asset	(159,244)
Decrease in deferred outflows-pension	685,968
Increase in deferred outflows-OPEB	(14,485)
Decrease in accounts payable	(45,106)
Increase in contracts payable	19,696
Increase in accrued wages and benefits	20,734
Increase in intergovernmental payable	1,896
Increase in STRS-SERS payable	27,602
Decrease in net pension liability	(138,864)
Decrease in net OPEB liability	(386,957)
Increase in deferred inflows-pension	42,652
Increase in deferred inflows-OPEB	218,160
Total Adjustments	306,217
Net Cash Used for Operating Activities	$ (914,569)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Discovery Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to empower students with tools that they may not otherwise have access to due to economic constraints. There is a need to enable them to envision the world beyond their own neighborhood. It is our desire to expose them to people and places they never would have had an opportunity to meet or see. They will be empowered to see the difference they can make in their own community as they engage in project-based learning. Understanding and using technology will be an integral part of virtually every aspect of daily life for our students. It is our mission to transform the learning process with technology-infused projects beneficial to the community, while promoting collaboration, global awareness, and high student achievement. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy is sponsored under a contract with the Ohio Department of Education (the Sponsor) for a period of one year commencing July 1, 2018. 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. For 2019, the Academy paid $98,318 to the Sponsor.

The Academy operates under the direction of a six-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 forty-two certificated teaching personnel and fourteen non-certificated personnel who provide services to 339 students.

The governing board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of its school. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee (see Note 14).

The State of Ohio requires that the financial activities of all community schools are overseen by a licensed fiscal officer. The fiscal officer is retained by the board of directors and is not affiliated with TLG.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected to follow private sector guidance issued after November 30, 1989 for its business-type activities. Descriptions of the more significant of the Academy's accounting policies follow.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position, a statement of revenue, expenses, and change in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus

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

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

Expenses are recognized at the time they are incurred.

D. 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 Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and cash equivalents" on the Statement of Net Position. The Academy had no investments during the fiscal year ended June 30, 2019.

F. Receivables

Accounts receivable and intergovernmental receivables at June 30, 2019 are considered collectible in full and will be received within one year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets

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 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. All reported capital assets are depreciated. Depreciation is computed using the straight-line method. A summary of capital asset activity can be found in Note 6. Cost thresholds and useful lives are as follows:

Capitalization and Depreciation Policy

Category	Cost Threshold	Useful Life
Leasehold improvements	Professional judgement not less than $25,000	Life of Lease
Furniture, fixtures, and equipment	Individual item - $5,000 Sum of like items in a single purchase - $12,500	7 years
EDP equipment and software		3 years
Non-EDP equipment		6 years

H. Net Position

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

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

The state foundation revenue is determined based on the student count and the foundation allowance per pupil. Approximately 69.78% of revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue. The impact on the Academy of the State's projected revenue is not known.

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

K. Estimates

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

L. Tax Status

The Academy is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

M. Security Deposit

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling $15,000, is held by the lessor (see Note 12).

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the Academy, deferred outflows of resources are reported on the statement of net position for pension and other post-employment benefits (OPEB). The deferred outflows of resources related to pension and OPEB are explained in Notes 8 and 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Academy, deferred inflows of resources consist of pension and OPEB. The deferred inflows of resources related to pension and OPEB are explained in Notes 8 and 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Pensions/Other Post-Employment Benefits (OPEB)

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

3. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2019, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*

GASB Statement No. 83 requires disclosure of how funding and assurance requirements for performance of asset retirement activities are being met by a government, as well as the amount of any assets restricted for payment of the government’s AROs, if not separately displayed in the financial statements. This Statement also requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government’s minority shares of AROs. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Academy.

GASB Statement No. 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the Academy.

4. DEPOSITS

The Academy has designated one bank for the deposit of its funds. The Academy’s deposits consist solely of checking and/or savings accounts at local banks; therefore, the Academy has not adopted a formal investment policy.

A. Cash on Hand

At June 30, 2019, the carrying amount of all Academy deposits was $564,855. The Academy also maintains a $300 petty cash fund. At June 30, 2019, the Academy’s bank balance was $574,191. $324,191 was exposed to custodial credit risk as discussed below, and $250,000 was covered by the Federal Deposit Insurance Corporation (the “FDIC”).

4. DEPOSITS (continued)

B. Custodial Credit Risk of Bank Deposits

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.

5. RECEIVABLES

Receivables at June 30, 2019 consisted primarily of intergovernmental grants, an ODE foundation adjustment, and a Medicaid settlement. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

Receivables

Source	June 30, 2019
Intergovernmental receivable:	
Title I	$ 103,517
Title IIa	4,218
Title IV	2,208
IDEA	27,890
ODE foundation adjustment	32,224
Due from other academies	4,669
Medicaid	26,093
Casino tax revenue	9,344
Stipend payment	131
Total intergovernmental receivable	$ 210,294

6. CAPITAL ASSETS

A physical inventory of capital assets was performed at the Academy on February 15, 2019. As a result, disposals of capital equipment costing $26,094 with a net book value of $296 were recorded. Capital asset activity for the fiscal year ended June 30, 2019 is as follows:

Capital Asset Activity

Category	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets being depreciated:				
Furniture and fixtures	$ 255,828	$ -	$ 26,094	$ 229,734
Total depreciable capital assets	255,828	-	26,094	229,734
Less accumulated depreciation:				
Furniture and fixtures	(144,928)	(43,015)	(25,798)	(162,145)
Total accumulated depreciation	(144,928)	(43,015)	(25,798)	(162,145)
Total depreciable capital assets - net	$ 110,900	$ (43,015)	$ 296	$ 67,589

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7. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the Academy contracted with Philadelphia Indemnity Insurance Company for general liability, property insurance and educational errors and omissions insurance.

Coverage is as follows:

Insurance Coverages

Type	FY2019 Limits
Educational Errors and Omissions:	
D&O Liability and Employment Practices	$1,000,000
General Liability:	
General Aggregate	2,000,000
Per Occurrence	1,000,000
Abuse/Molestation Per Occurrence/Aggregate	1,000,000
Umbrella	15,000,000
Property:	
Personal Property	257,000
Business Income	150,000
Auto Liability:	
Combined Single Limit	1,000,000
Miscellaneous:	
Student Sports Per Occurrence	50,000
Student Sports Aggregate	500,000
Fiduciary and Crime	500,000
Cyber Liability	2,000,000
Foreign Travel	1,000,000

Settled claims have not exceeded this coverage in any of the past three years. Any changes in coverage are due to periodic reviews of the needs of the Academy.

B. Workers' Compensation

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

8. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

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

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

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

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*. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages payable and/or STRS-SERS payable on both the accrual and modified accrual bases of accounting.

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

Plan Description – Academy non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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.

8. DEFINED BENEFIT PENSION PLANS (continued)

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

Age and service requirements for retirement are as follows:

Benefits	Eligible to Retire on or before August 1, 2017*	Eligible to Retire On or After August 1, 2017
Full	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	Age 60 with 5 years of service credit, or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit, or Age 60 with 25 years of service credit

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

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

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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019 (see Note 9).

The Academy's contractually required contribution to SERS was $81,624 for fiscal year 2019. Of this amount, $14,241 is recorded as a liability of the Academy.

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

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

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying one percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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

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

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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, 2019, 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 2019 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was $176,265 for fiscal year 2019. Of this amount, $31,924 is recorded as a liability of the Academy.

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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Academy's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability:			
Current measurement date	0.01305700%	0.00991002%	
Prior measurement date	0.01414600%	0.00934726%	
Change in proportionate share	(0.00108900%)	0.00056276%	
Proportionate share of the net pension liability	$ 747,799	$ 2,178,991	$ 2,926,790
Pension expense	$ 225,573	$ 622,072	$ 847,645

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

8. DEFINED BENEFIT PENSION PLANS (continued)

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

At June 30, 2019 the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources - Pension			
Differences between expected and actual experience	$ 41,010	$ 50,297	$ 91,307
Changes of assumptions	16,887	386,159	403,046
Changes in proportion and differences between Academy contributions and proportionate share of contributions	151,753	907,514	1,059,267
Academy contributions subsequent to the measurement date	81,624	176,265	257,889
Total deferred outflows of resources - pension	$ 291,274	$1,520,235	$1,811,509
Deferred Inflows of Resources - Pension			
Differences between expected and actual experience	$ -	$ 14,231	$ 14,231
Net difference between projected and actual earnings on pension plan investments	20,721	132,134	152,855
Changes in proportion and differences between Academy contributions and proportionate share of contributions	35,013	192,778	227,791
Total deferred inflows of resources - pension	$ 55,734	$ 339,143	$ 394,877

$257,889 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Amortization of Deferred Outflows and Deferred Inflows - Pension

Fiscal Year Ending June 30:	SERS	STRS	Total
2020	$ 163,113	$ 602,534	$ 765,647
2021	21,701	436,943	458,644
2022	(24,542)	(28,891)	(53,433)
2023	(6,356)	(5,759)	(12,115)
	$ 153,916	$ 1,004,827	$ 1,158,743

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation are presented below:

Calculating Total Pension Liability - SERS

Method	Assumption
Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal (Level Percent of Payroll)
Actuarial assumptions experience study date	5 year period ended June 30, 2015
Investment rate of return	7.50 percent net of investment expense, including inflation
COLA or ad hoc COLA	2.50 percent, on and after April 1, 2018, COLAs for future retirees will be delayed for three years following commencement
Future salary increases, including inflation	3.50 percent to 18.20 percent
Wage inflation	3.00 percent
Mortality assumptions	For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120 percent of male rates and 110 percent of female rates used. The RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years is used for the period after disability retirement.

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The asset allocation, as used in the June 30, 2015 five-year experience study, is summarized as follows:

Real Rates of Return on Pension Plan Investments - SERS

Asset Class	Target Allocation		Long Term Expected Real Rate of Return	
Cash	1.00	%	0.50	%
US equity	22.50		4.75	
International equity	22.50		7.00	
Fixed income	19.00		1.50	
Private equity	10.00		8.00	
Real assets	15.00		5.00	
Multi-asset strategies	10.00		3.00	
	100.00	%		

Discount Rate 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 that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

8. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Academy'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.

Sensitivity to Changes in Discount Rate - SERS

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	$ 1,053,331	$ 747,799	$ 491,630

F. Actuarial Assumptions - STRS

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation are presented below:

Calculating Total Pension Liability - STRS

Method	Assumption
Valuation date	July 1, 2018
Actuarial assumptions experience study date	July 1, 2011 - June 30, 2016
Inflation	2.50 percent
Salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Projected payroll growth	3.00 percent
Cost-of-living adjustments (COLA)	0.00 percent
Mortality assumptions	Post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

8. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

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

Real Rates of Return on Pension Plan Investments - STRS

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
Domestic equity	28.00 %	7.35 %
International equity	23.00	7.55
Alternatives	17.00	7.09
Fixed income	21.00	3.00
Real estate	10.00	6.00
Liquidity reserves	1.00	2.25
	100.00 %	

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

8. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Academy's proportionate share of the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

Sensitivity to Changes in Discount Rate - STRS

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	$ 3,182,129	$ 2,178,991	$ 1,329,970

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS

A. Net OPEB Asset/Liability

The net OPEB asset/liability reported on the statement of net position represents an asset or liability to employees for OPEB. OPEB is a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB asset/liability represents the Academy's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB asset/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 these estimates annually.

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

GASB 75 assumes the asset/liability is solely that of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees, which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB asset/liability. Resulting adjustments to the net OPEB asset/liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS (continued)

A. Net OPEB Asset/Liability (continued)

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in accrued wages payable and/or STRS/SERS payable on both the accrual and modified accrual bases of accounting.

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

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. 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. For fiscal year 2019, this amount was $21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the Academy's surcharge obligation was $10,014.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was $13,037 for fiscal year 2019. Of this amount, $10,541 is recorded as a liability of the Academy.

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS (continued)

C. Plan Description - School Employees Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

D. OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB asset/liability was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the net OPEB liability:			
Current measurement date	0.01308230%	0.00991002%	
Prior measurement date	0.01435310%	0.00934726%	
Change in proportionate share	(0.00127080%)	0.00056276%	
Proportionate share of the net OPEB liability	$ 362,938	$ (159,244)	$ 203,694
OPEB expense	$ 20,910	$ (350,399)	$ (329,489)

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS (continued)

D. OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

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

At June 30, 2019, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources - OPEB			
Differences between expected and actual experience	$ 5,925	$ 18,600	$ 24,525
Changes in proportion and differences between Academy contributions and proportionate share of contributions	23,909	20,053	43,962
Academy contributions subsequent to the measurement date	13,037	-	13,037
Total deferred outflows of resources - OPEB	$ 42,871	$ 38,653	$ 81,524
Deferred Inflows of Resources - OPEB			
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 9,278	$ 9,278
Net difference between projected and actual earnings on OPEB plan investments	544	18,192	18,736
Changes of assumptions	32,608	216,982	249,590
Changes in proportion and differences between Academy contributions and proportionate share of contributions	31,437	41,719	73,156
Total deferred inflows of resources - OPEB	$ 64,589	$ 286,171	$ 350,760

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS (continued)

D. OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

$13,037 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Amortization of Deferred Outflows and Deferred Inflows - OPEB

Fiscal Year Ending June 30:	SERS	STRS	Total
2020	$ (5,497)	$ (45,438)	$ (50,935)
2021	(5,860)	(45,438)	(51,298)
2022	(7,009)	(45,436)	(52,445)
2023	(6,779)	(41,308)	(48,087)
2024	(6,816)	(39,856)	(46,672)
Thereafter	(2,794)	(30,042)	(32,836)
	$ (34,755)	$ (247,518)	$ (282,273)

E. Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation are presented below:

Calculating Total OPEB Liability - SERS

Method	Assumption
Valuation date	June 30, 2018
Actuarial assumptions experience study date	5 year period ended June 30, 2015
Investment rate of return	7.50 percent net of investment expense, including inflation
Wage Inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Municipal bond index rate	
Prior measurement date	3.56 percent
Measurement date	3.62 percent
Single equivalent interest rate, net of plan investment expense, including price inflation	
Prior measurement date	3.63 percent, net of plan investment expense, including price inflation
Measurement date	3.70 percent, net of plan investment expense, including price inflation
Medical trend assumption	
Pre-Medicare	7.25 percent – 4.75 percent
Medicare	5.375 percent – 4.75 percent
Mortality assumptions	Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The long-term expected rate of return on plan factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Real Rates of Return on OPEB Plan Investments - SERS

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US equity	22.50	4.75
International equity	22.50	7.00
Fixed income	19.00	1.50
Private equity	10.00	8.00
Real assets	15.00	5.00
Multi-asset strategies	10.00	3.00
	100.00 %	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

Sensitivity to Changes in Discount Rate - SERS

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Academy's proportionate share of the net OPEB liability	$ 440,397	$ 362,938	$ 301,605

Sensitivity to Changes in Trend Rate - SERS

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	$ 292,825	$ 362,938	$ 455,781

F. Actuarial Assumptions – STRS

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation are presented below:

Calculating Total OPEB Liability - STRS

Method	Assumption
Valuation date	June 30, 2018
Actuarial assumptions experience study date	July 1, 2011 - June 30, 2016
Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Payroll increases	3.00 percent
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Health care cost trends	(5.23) percent to 9.62 percent initial, 4.00 percent ultimate
Mortality assumptions	For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

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

Real Rates of Return on OPEB Plan Investments - STRS

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
Domestic equity	28.00 %	7.35 %
International equity	23.00	7.55
Alternatives	17.00	7.09
Fixed income	21.00	3.00
Real estate	10.00	6.00
Liquidity reserves	1.00	2.25
	100.00 %	

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

Sensitivity of the Academy's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as of June 30, 2018, calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

Sensitivity to Changes in Discount Rate - STRS

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net OPEB liability/(asset)	$ (136,487)	$ (159,244)	$ (178,370)

Sensitivity to Changes in Trend Rate - STRS

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability/(asset)	$ (177,290)	$ (159,244)	$ (140,916)

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10. CONTINGENCIES

A. Student Attendance and Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2019, if applicable, cannot be determined at this time.

B. Foundation Funding

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the Academy for fiscal year 2019.

As of the date of this report, adjustments for fiscal year 2019 are finalized. The impact of FTE adjustments does not have a material impact on the financial statements.

In addition, the Academy's contracts with ODE and The Leona Group, LLC, require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2019 have been finalized. The impact of FTE adjustments does not have a material impact on the 2019 financial statements.

11. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2019, purchased service expenses were payments for services rendered by various vendors and expenses related to pension and OPEB, as follows:

Purchased Services

Category	FY2019
Salaries	$1,621,174
Fringe benefits	729,781
Other professional and technical services	48,574
The Leona Group, LLC	483,484
Legal services	1,458
Ohio Department of Education	98,318
Cleaning services	9,288
Repairs and maintenance	27,211
Building rental	189,000
Other rentals	10,385
Communication	29,088
Advertising	151
Utilities	114,233
Contracted food service	157,551
Pupil transportation	294,168
Total purchased services	$3,813,864

12. OPERATING LEASES

The Academy entered into a lease with Lake Erie Villa, LLC for the period July 1, 2016 through June 30, 2018. Amendments were executed on April 19, 2018, to extend the lease through June 30, 2019, and on May 16, 2019, to extend the lease through June 30, 2024. Lake Erie Villa, LLC is affiliated with The Leona Group, LLC. Rent payments for fiscal year 2019 totaled $189,000.

12. OPERATING LEASES (continued)

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2019:

Future Minimum Lease Payments Due

Fiscal Year Ending June 30,	Annual Total
2020	$ 198,444
2021	198,444
2022	208,368
2023	208,368
2024	208,368
Total minimum lease payments	$ 1,021,992

13. DEBT

The Academy had no debt during fiscal year 2019.

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective May 23, 2013 through June 30, 2018, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. A one-year agreement effective through June 30, 2019 was signed on May 17, 2018, and five-year agreement effective through June 30, 2024 was signed on May 16, 2019. In exchange for its services, TLG receives a capitation fee of 12% of the per pupil expenditures. Grant administration fees paid to TLG, if any, are deducted from management fees. The amount paid to TLG for fiscal period 2019 totaled $483,484.

Terms of the management contracts require The Leona Group, LLC to provide the following:

A. implementation and administration of the Educational Program;

B. management of all personnel functions, including professional development;

C. operation of the school building and the installation of technology integral to school design;

D. all aspects of the business administration of the Academy;

E. the provision of food service for the Academy; and

F. any other function necessary or expedient for the administration of the Academy.

14. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT (continued)

Also, there are expenses that are billed to the Academy based on the actual costs incurred for the Academy by The Leona Group, LLC. These expenses include rent, salaries of The Leona Group, LLC, employees working at the Academy, and other costs related to providing educational and administrative services.

For the year ended June 30, 2019, those expenses are shown in the following table:

Related Party Transactions

	Function (code range)				
	Regular Instruction (1100)	Special Instruction (1200)	Support Services (2000)	Non-Instructional (3000-7000)	Total
Direct expenses:					
Object (code range)					
Salaries and wages (100)	$595,442	$452,616	$544,242	$15,711	$1,608,011
Employees' benefits (200)	176,504	119,315	164,505	4,774	465,098
Professional and technical services (410)			20,850		20,850
Property services (420)			733	189,000	189,733
Contracted craft/trade services (460)				2,708	2,708
Supplies (500)		2,021	2,175		4,196
Other direct costs (all other)			24,340		24,340
Total expenses	$771,946	$573,952	$756,845	$212,193	$2,314,936

At June 30, 2019, the Academy had payables to The Leona Group, LLC in the amount of $25,221. The following is a schedule of payables due to The Leona Group, LLC:

Balance Due to The Leona Group, LLC

Type	June 30, 2019
Management fees	$ 32,063
Payroll	114
Miscellaneous	(6,956)
Total	$ 25,221

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 13, 2019, the date on which the financial statements were submitted for audit. As of that date, no significant subsequent events were noted.

DISCOVERY ACADEMY
Lucas County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years [1]

	2019	2018	2017
School Employees Retirement System (SERS)			
Academy's proportion of the net pension liability	0.01305700%	0.01414600%	0.01246450%
Academy's proportionate share of the net pension liability	$ 747,799	$ 845,192	$ 912,286
Academy's covered payroll	$ 430,911	$ 465,764	$ 390,950
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	173.54%	181.46%	233.35%
Plan fiduciary net position as a percentage of the total pension liability	71.36%	69.50%	62.98%
State Teachers Retirement System (STRS)			
Academy's proportion of the net pension liability	0.00991002%	0.00934726%	0.01043938%
Academy's proportionate share of the net pension liability	$ 2,178,991	$ 2,220,462	$ 3,494,375
Academy's covered payroll	$ 1,191,536	$ 1,029,600	$ 1,122,664
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	182.87%	215.66%	311.26%
Plan fiduciary net position as a percentage of the total pension liability	77.31%	75.30%	66.80%

(1) 2014 was the Academy's first year of operation. Schedule will eventually report ten years of data.

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

See accompanying Notes to the Required Supplementary Information.

DISCOVERY ACADEMY
Lucas County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years [1]
(continued)

	2016	2015
School Employees Retirement System (SERS)		
Academy's proportion of the net pension liability	0.00364630%	0.00197900%
Academy's proportionate share of the net pension liability	$ 208,061	$ 100,156
Academy's covered payroll	$ 109,765	$ 59,076
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	189.55%	169.54%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%
State Teachers Retirement System (STRS)		
Academy's proportion of the net pension liability	0.00435999%	0.00253492%
Academy's proportionate share of the net pension liability	$ 1,204,974	$ 616,580
Academy's covered payroll	$ 454,893	$ 254,431
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	264.89%	242.34%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%

[1] 2014 was the Academy's first year of operation. Schedule will eventually report ten years of data.

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

See accompanying Notes to the Required Supplementary Information.

DISCOVERY ACADEMY
Lucas County, Ohio
Required Supplementary Information
Schedule of the Academy's Pension Contributions
Last Six Fiscal Years [(1)]

	2019	2018	2017
School Employees Retirement System (SERS)			
Contractually required pension contribution	$ 81,624	$ 58,173	$ 65,207
Contributions in relation to the contractually required pension contribution	(81,624)	(58,173)	(65,207)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Academy's covered payroll	$ 604,622	$ 430,911	$ 465,764
Contributions as a percentage of covered payroll	13.50%	13.50%	14.00%
State Teachers Retirement System (STRS)			
Contractually required pension contribution	$ 176,265	$ 166,815	$ 144,144
Contributions in relation to the contractually required pension contribution	(176,265)	(166,815)	(144,144)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Academy's covered payroll	$1,259,036	$1,191,536	$1,029,600
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%

(1) Fiscal Year 2014 was the Academy's first year of operation.
Schedule will eventually report ten years of data.

See accompanying Notes to the Required Supplementary Information.

DISCOVERY ACADEMY
Lucas County, Ohio
Required Supplementary Information
Schedule of the Academy's Pension Contributions
Last Six Fiscal Years (1)
(continued)

	2016	2015	2014
School Employees Retirement System (SERS)			
Contractually required pension contribution	$ 54,733	$ 14,467	$ 8,188
Contributions in relation to the contractually required pension contribution	(54,733)	(14,467)	(8,188)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Academy's covered payroll	$ 390,950	$109,765	$ 59,076
Contributions as a percentage of covered payroll	14.00%	13.18%	13.86%
State Teachers Retirement System (STRS)			
Contractually required pension contribution	$ 157,173	$ 63,685	$ 33,076
Contributions in relation to the contractually required pension contribution	(157,173)	(63,685)	(33,076)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Academy's covered payroll	$1,122,664	$454,893	$254,431
Contributions as a percentage of covered payroll	14.00%	14.00%	13.00%

(1) Fiscal Year 2014 was the Academy's first year of operation. Schedule will eventually report ten years of data.

See accompanying Notes to the Required Supplementary Information.

DISCOVERY ACADEMY
Lucas County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net OPEB Liability/(Asset)
Last Three Fiscal Years [1]

	2019	2018	2017
School Employees Retirement System (SERS)			
Academy's proportion of the net OPEB liability	0.01308230%	0.01435310%	0.01259519%
Academy's proportionate share of the net OPEB liability	$ 362,938	$ 385,199	$ 359,010
Academy's covered payroll	$ 430,911	$ 465,764	$ 390,950
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	84.23%	82.70%	91.83%
Plan fiduciary net position as a percentage of the total OPEB liability	13.57%	12.46%	11.49%
State Teachers Retirement System (STRS)			
Academy's proportion of the net OPEB liability/(asset)	0.99100200%	0.00934726%	0.01043938%
Academy's proportionate share of the net OPEB liability/(asset)	$ (159,244)	$ 364,696	$ 558,301
Academy's covered payroll	$ 1,191,536	$ 1,029,600	$ 1,122,664
Academy's proportionate share of the net OPEB liability/(asset) as a percentage of its covered payroll	(13.36)%	35.42%	49.73%
Plan fiduciary net position as a percentage of the total OPEB liability	176.00%	47.10%	37.30%

[1] Information prior to 2017 is not available. Schedule will eventually report ten years of data.

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

See accompanying Notes to the Required Supplementary Information.

DISCOVERY ACADEMY
Lucas County, Ohio
Required Supplementary Information
Schedule of the Academy's OPEB Contributions
Last Six Fiscal Years [1]

	2019	2018	2017
School Employees Retirement System (SERS)			
Contractually required OPEB contribution [2]	$ 13,037	$ 8,494	$ 7,814
Contributions in relation to the contractually required OPEB contribution	(13,037)	(8,494)	(7,814)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Academy's covered payroll	$ 604,622	$ 430,911	$ 465,764
Contributions as a percentage of covered payroll	2.16%	1.97%	1.68%
State Teachers Retirement System (STRS)			
Contractually required OPEB contribution	$ 0	$ 0	$ 0
Contributions in relation to the contractually required OPEB contribution	0	0	0
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Academy's covered payroll	$1,259,036	$1,191,536	$1,029,600
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%

[1] Fiscal Year 2014 was the Academy's first year of operation.
Schedule will eventually report ten years of data.

[2] Includes surcharge

See accompanying Notes to the Required Supplementary Information.

DISCOVERY ACADEMY
Lucas County, Ohio
Required Supplementary Information
Schedule of the Academy's OPEB Contributions
Last Six Fiscal Years [1]
(continued)

	2016	2015	2014
School Employees Retirement System (SERS)			
Contractually required OPEB contribution [2]	$ 6,218	$ 2,863	$ 1,105
Contributions in relation to the contractually required OPEB contribution	(6,218)	(2,863)	(1,105)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Academy's covered payroll	$ 390,950	$109,765	$ 59,076
Contributions as a percentage of covered payroll	1.59%	2.61%	1.87%
State Teachers Retirement System (STRS)			
Contractually required OPEB contribution	$ 0	$ 0	$ 2,544
Contributions in relation to the contractually required OPEB contribution	0	0	(2,544)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Academy's covered payroll	$1,122,664	$454,893	$254,431
Contributions as a percentage of covered payroll	0.00%	0.00%	1.00%

[1] Fiscal Year 2014 was the Academy's first year of operation.
Schedule will eventually report ten years of data.

[2] Includes surcharge

See accompanying Notes to the Required Supplementary Information.

1. NET PENSION LIABILITY

A. Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disabled members was updated to the following:
  - RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

B. Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

C. Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

D. Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

2. NET OPEB ASSET/LIABILITY

A. Changes in Assumptions - SERS

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2019	3.62 percent
Fiscal year 2018	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2019	3.70 percent
Fiscal year 2018	3.63 percent

Health Care Cost Trend Assumptions:

Pre-Medicare	
Fiscal Year 2019	7.25 percent initially, decreasing to 4.75 percent
Fiscal Year 2018	7.50 percent initially, decreasing to 4.00 percent
Medicare	
Fiscal Year 2019	5.375 percent initially, decreasing to 4.75 percent
Fiscal Year 2018	5.50 percent initially, decreasing to 5.00 percent

B. Changes in Benefit Terms – SERS

There have been no changes to the benefit provisions.

C. Changes in Assumptions – STRS

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent. Valuation year per capita health care costs were updated. Health care cost trend rates ranged from 6.00 percent to 11 percent initially and a 4.50 percent ultimate rate for fiscal year 2018 and changed for fiscal year 2019 to a range of -5.20 percent to 9.60 percent, initially and a 4.00 ultimate rate.

For fiscal year 2018, the blended discount rate was increased from 3.26 percent to 4.13 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

D. Changes in Benefit Term – STRS

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. This was subsequently extended, see above paragraph.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Discovery Academy
Lucas County
2125 University Park Drive
Okemos, Michigan 48864

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Discovery Academy, Lucas County, (the Academy) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 13, 2019.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the 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 report is not suitable for any other purpose.

BHM CPA Group

BHM CPA Group Inc.
Piketon, Ohio
December 13, 2019

OHIO AUDITOR OF STATE
KEITH FABER

DISCOVERY ACADEMY

LUCAS 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 25, 2020

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