MIAMI VALLEY ACADEMIES
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Dave Yost · Auditor of State

MIAMI VALLEY ACADEMIES
MONTGOMERY COUNTY
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Miami Valley Academies
Montgomery County
5656 Springboro Pike
Moraine, Ohio 45449

To the Board of Trustees:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Miami Valley Academies, Montgomery County, as of June 30, 2017, 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.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the Academy has suffered recurring losses from operations and has a net position deficiency. Note 16 also describes management's evaluation of the events and conditions and their plans to mitigate these matters. Our opinion is unmodified regarding this matter.

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 liabilities and pension 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 September 5, 2018, 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.

Dave Yost
Auditor of State
Columbus, Ohio

September 5, 2018

Miami Valley Academies
Montgomery County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(unaudited)

The discussion and analysis of Miami Valley Academies' (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the 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 their statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* issued June, 1999. Certain comparative information between the current year and the prior year is required to be present and is presented in the MD&A.

Financial Highlights

Key financial highlights for the fiscal year 2017 are as follows:

- Total net position of the Academy decreased by $126,202 as the Academy's revenues dropped by 34% and the overall cash balance decreased over $4,000.

- The Academy implemented GASB 68 in fiscal year 2015 (discussed starting on page 4) resulting in the overall net position being ($2,119,591). The Academy is required to report a net pension liability of $2,520,349 which is one of the components that significantly reduces the Academy's net position.

- Total assets only decreased $2,908 as cash decreased as stated above and the Academy's capital assets are down $28,249 but the Academy has a large receivable at June 30, 2017 due to overpayments into the State Teachers Retirement System.

Using this Financial Report and Overview of Financial Statements

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and change in net position, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

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

This statement reports the Academy's net position, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

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

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

Table 1 provides a summary of the Academy's net position for fiscal year 2017 compared with fiscal year 2016.

TABLE 1
NET POSITION

	2017	2016	Change
Assets			
Current and Other Assets	$51,183	$25,842	$25,341
Capital Assets, Net	65,122	93,371	(28,249)
Total Assets	116,305	119,213	(2,908)
Deferred Outflows			
Pensions	427,975	237,783	190,192
Liabilities			
Current Liabilities	134,831	127,897	6,934
Long Term Liabilities			
Net Pension Liability	2,520,349	2,073,537	446,812
Total Liabilities	2,655,180	2,201,434	453,746
Deferred Inflows			
Pensions	8,691	148,951	(140,260)
Net Position			
Net Investment in Capital Assets	65,122	93,371	(28,249)
Restricted	0	5,372	(5,372)
Unrestricted	(2,184,713)	(2,092,132)	(92,581)
Total Net position	($2,119,591)	($1,993,389)	($126,202)

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

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

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

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

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

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

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

The Academy's total net position decreased by $126,202 during fiscal year 2017. The Academy saw the cash decrease by $4,117 during the year as the Academy saw the foundation payments and grants revenue decrease as the FTE counts dropped from 170 in fiscal year 2016 to 100 in fiscal year 2017.

Total (non pension) liabilities of the Academy increased $6,934 over those reported at June 30, 2016. The majority of the increase relates to the sick leave payable to the former superintendent.

Table 2 shows the change in net position for fiscal year 2017 and fiscal year 2016, as well as a listing of revenues and expenses.

TABLE 2
CHANGE IN NET POSITION

	2017	2016	Change
Operating Revenues:			
Foundation payments	$793,280	$1,318,960	($525,680)
Other operating revenues	6,784	20,741	(13,957)
Non Operating Revenues:			
Gain on sale of assets	19,325	0	19,325
State and federal grants	257,390	283,600	(26,210)
Total Revenue	1,076,779	1,623,301	(546,522)
Operating Expenses:			
Salaries	573,786	811,467	(237,681)
Fringe Benefits	231,299	190,148	41,151
Management and Fiscal Services	144,158	282,204	(138,046)
Property Services	117,590	163,175	(45,585)
Other Purchased Services	66,371	157,912	(91,541)
Materials and Supplies	26,634	25,897	737
Depreciation	31,449	39,775	(8,326)
Other Expenses	11,694	5,088	6,606
Non Operating Expenses:			
Interest	0	1,086	(1,086)
Total Expenses	1,202,981	1,676,752	(473,771)
Changes in net position	(126,202)	(53,451)	($72,751)
Net position, beginning of year	($1,993,389)	(1,939,938)	
Net position, end of year	($2,119,591)	($1,993,389)	

Total revenue for the Academy decreased $546,522 in fiscal year 2017 compared with fiscal year 2016. This is a direct result of the FTE counts dropping from 170 to 100 which impacted the foundation payment plus students that are eligible for federal grants.

Total expenses for the Academy reported for the fiscal year were $473,771 less than the prior year. The Academy saw the fringe benefits increase as a result of reporting pension expense of $195,601 from the respective GASB 68 pension adjustments. Most of the other lines items decreased which is the result of having a smaller student population during the 2017 fiscal year.

Capital Assets

At June 30, 2017, the capital assets of the Academy consisted of $1,028,010 of equipment and leasehold improvements offset by $962,888 in accumulated depreciation resulting in net capital assets of $65,122.

See Note 4 of the notes to the basic financial statements for additional information on the Academy's capital assets.

Debt

At June 30, 2017, the Academy had no outstanding debt obligations.

Financial Distress

For fiscal year 2017, the Academy had a negative net position of ($2,119,591). Excluding items related to *GASB 68 Accounting and Financial Reporting for Pension* (Deferred Outflows, Deferred Inflows and Net Pension Liability), the Academy reported a negative net position of ($18,526).

See Note 16 of the notes to the basic financial statements for additional information on the Academy's plan to eliminate this position.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Miami Valley Academies and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Miami Valley Academies, 5656 Springboro Pike, Moraine, OH 45449.

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MIAMI VALLEY ACADEMIES
Montgomery County, Ohio
Statement of Net Position

JUNE 30, 2017

Assets:	
Current assets:	
Cash	$ 11,266
Intergovernmental receivable	39,917
Total current assets	51,183
Noncurrent assets:	
Capital assets, net depreciation	65,122
Total noncurrent assets	65,122
Total Assets	116,305
Deferred Outflows of Resources:	
Pension	427,975
Total Deferred Outflows of Resources:	427,975
Liabilities:	
Current liabilities	
Accounts payable	29,637
Accrued wages and benefits	62,187
Intergovernmental payable	14,233
Sick Leave Payable	28,774
Total current liabilities	134,831
Long term liabilities	
Net Pension Liability	2,520,349
Total Long term liabilities	2,520,349
Total Liabilities	2,655,180
Deferred Inflows of Resources:	
Pension	8,691
Total Deferred Inflows of Resources:	8,691
Net Position:	
Net invested in capital assets	65,122
Unrestricted	(2,184,713)
Total Net Position	$ (2,119,591)

See accompanying notes to the basic financial statements

MIAMI VALLEY ACADEMIES
Montgomery County, Ohio
Statement of Revenues, Expenses and Change in Net Position

For the Fiscal Year Ended June 30, 2017

Operating Revenues:		
State foundation	$	793,280
Tuition and fees		3,480
Charges for services		3,243
Other operating revenues		61
Total operating revenues		800,064
Operating Expenses:		
Salaries and wages		573,786
Fringe benefits		231,299
Purchased services:		
Contract management and fiscal services		144,158
Property services		117,590
Other		66,371
Materials and supplies		26,634
Depreciation		31,449
Other expenses		11,694
Total operating expenses		1,202,981
Operating loss		(402,917)
Nonoperating revenues:		
Gain on the sale of assets		19,325
Federal grants		250,651
State grants		6,739
Total nonoperating revenues		276,715
Change in Net Position		(126,202)
Net Position, beginning of year		(1,993,389)
Net Position, end of year	$	(2,119,591)

See accompanying notes to the basic financial statements

MIAMI VALLEY ACADEMIES
Montgomery County, Ohio
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	$ 798,089
Cash received from customers	7,078
Cash received from other operating revenues	61
Cash payments for personal services	(710,300)
Cash payments for contract services	(330,470)
Cash payments for supplies and materials	(25,337)
Cash payments for other expenses	(11,694)
Net cash used by operating activities	(272,573)
Cash flows from noncapital financing activities:	
Gain on the sale of assets	19,325
Cash received from state and federal grants	252,331
Net cash provided by noncapital financing activities	271,656
Cash flows from capital and related financing activities:	
Acquisition of Capital Assets	(3,200)
Net cash used by capital and related financing activities	(3,200)
Net change in cash and cash equivalents	(4,117)
Cash and Cash Equivalents at beginning of year	15,383
Cash and Cash Equivalents at end of year	$ 11,266

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	$ (402,917)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	31,449
Change in assets, deferred out flows of resources, liabilities and deferred inflows of resources:	
Accounts receivable	355
Intergovernmental receivable	(24,754)
Deferred Outflows - Pensions	(190,192)
Accounts payable	22,183
Accrued wages and benefits	(21,376)
Sick leave payable	28,774
Deferred Inflows - Pensions	(140,260)
Net Pension Liability	446,812
Intergovernmental payable	(22,647)
Net cash used by operating activities	$ (272,573)

See accompanying notes to the basic financial statements

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1. Description of the Academy and Reporting Entity:

Miami Valley Academies (the "Academy") is a state nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The Academy, which is part of the State education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2001 through June 1, 2005 after which the Thomas B. Fordham Foundation sponsored the Academy through May 2006. From May 2006 to June 30, 2010, Educational Resource Consultants of Ohio sponsored the Academy. During fiscal year 2011, Kids Count of Dayton took over as the Academy's sponsor and is still the sponsor.

The Academy operates under a self-appointing five-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility to provide educational services to 100 funded students. The Academy eliminated high school grades during the 2016-2017 school year which resulted in a large decrease in students from the prior year.

The Academy contracted with Educational Empowerment Group for management of the Academy effective June 1, 2017 through June 30, 2018. The management company handles the educational instruction, strategic planning, EMIS reporting, federal program oversight, student recruitment, financial management, and several other things including providing the Academy Superintendent. Additional information is provided in Note 14.

2. Summary of Significant Accounting Policies:

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

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The difference between total assets, deferred outflows, liabilities and deferred inflows is defined as net position. The statement of revenues, expenses and change in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with the sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

The Academy's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The Academy Principal and Treasurer are responsible for ensuring that purchases are made within these limits. However, any variances from the budgetary amounts are presented to the Board for subsequent approval.

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the cash is segregated into various funds.

E. Estimates

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

F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of $500. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of five to ten years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated over the life of the lease agreement of six years.

G. Intergovernmental revenues

The Academy currently participates in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and State educational grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

H. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly to the Academy's primary mission. For the Academy, operating revenues include foundation payments received from the State of Ohio and certain charges to students recorded as tuition and fees. Operating expenses are necessary costs incurred to support the Academy's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various state and federal grants and gain on sale of assets comprise the non-operating revenues of the Academy.

I. Accrued liabilities payable

The Academy has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of June 30, 2017, including:

Accounts Payable – vendor payments made after year-end that were for services rendered in fiscal year 2017. Service was provided by June 30, 2017 but not paid until July 1, 2017 or later. Therefore, a liability has been recognized at June 30, 2017.

Accrued Wages and Benefits Payable – salary payments made after year-end that were for services rendered in fiscal year 2017. Teaching personnel are paid in 24 equal installments, ending with the last pay period in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2017 for all salary payments made to teaching personnel during the months of July and August 2017.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($8,539), associated with services rendered during fiscal year 2017, but not paid until the subsequent fiscal year is the major expense in this category.

Sick leave payable – payment for the former Superintendent when she left employment with the Academy for the accrued sick leave balance at June 30, 2017. The Academy has no Board policy for sick leave accumulation and related payout at retirement. The only liability reported by the Academy is in relationship to this contractual payment.

J. Federal tax exemption status

The Academy is a non-profit organization that has been determined by the internal Revenue Service to be exempt from federal income taxes a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 7.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 7)

L. Pensions

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

M. Net position

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

3. Deposits and Investments:

The Academy does not have a policy addressing custodial credit risk for its deposits. At June 30, 2017, the carrying amount of the Academy's deposits was $11,266 and the bank balance was $20,381, the entire balance of which was covered by federal depository insurance.

4. Capital Assets:

A summary of the Academy's capital assets at June 30, 2017, follows:

	Beginning Balance	Additions	Deletions	Ending Balances
Capital assets being depreciated:				
Leasehold Improvements	$674,512	$0	$0	$674,512
Equipment	350,298	3,200	0	353,498
Total Capital Assets	1,024,810	3,200	0	1,028,010
Less: accumulated depreciation on:				
Leasehold Improvements	(612,205)	(19,489)	0	(631,694)
Equipment	(319,234)	(11,960)	0	(331,194)
Total Accumulated Depreciation	(931,439)	(31,449)	0	(962,888)
Capital assets, net	$93,371	($28,249)	$0	$65,122

5. Risk Management:

Property and liability – The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Academy contracted with the Argonaut Insurance Company for business personal property and general liability insurance. Business personal property coverage carries a $562,755 limit, and has a $1,000 deductible. Building liability coverage is set at $1,722,029 with a $1,000 deductible. The Academy has a $3,000,000 general aggregate limit with $1,000,000 limit per occurrence carrying a $2,500 deductible.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

Employee insurance benefits – The Academy provides medical benefits through Anthem.

6. Change in Accounting Principle

For fiscal year 2017, the Academy has implemented GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans", GASB Statement No. 80, "Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14" and GASB Statement No. 82, "Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Academy.

7. Defined Benefits Pension Plan:

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Age 65 with 5 years of service credit; or Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30 or $86 multiplied by the years of service. Final average salary is the average of the highest three years of salary.

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

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

The Academy's contractually required contribution to SERS was $5,360 for fiscal year 2017. Of this amount $826 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65 or 35 years of service and at least age 60.

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

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

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

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

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

The Academy's contractually required contribution to STRS was $68,917 for fiscal year 2017. Of this amount $7,713 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability - prior measurement date	0.0022592%	0.00703629%	
Proportion of the Net Pension Liability - current measurement date	0.0020580%	0.00707950%	
Change in proportionate share	-0.0002012%	0.00004321%	
Proportionate Share of the Net Pension Liability	$150,627	$2,369,722	$2,520,349
Pension Expense	$17,078	$178,523	$195,601

At June 30, 2017, 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			
Differences between expected and actual experience	$2,007	$95,600	$97,607
Net difference between projected and actual earnings on pension plan investments	12,959	199,603	212,562
Changes in proportionate share and difference between Academy contribution and proportionate share of contributions	3,738	29,737	33,475
Changes in assumptions	10,054	0	10,054
Academy contributions subsequent to the measurement date	5,360	68,917	74,277
Total Deferred Outflows of Resources	$34,118	$393,857	$427,975
Deferred Inflows of Resources			
Changes in proportionate share and difference between Academy contribution and proportionate share of contributions	$8,691	$0	$8,691

$74,277 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	$4,913	$57,020	$61,933
2019	4,913	57,019	61,932
2020	6,666	130,391	137,057
2021	3,575	80,510	84,085
Total	$20,067	$324,940	$345,007

Actuarial Assumptions - SERS

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

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

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

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

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

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

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

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	$199,420	$150,627	$109,784

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$3,149,168	\$2,369,722	\$1,712,213

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

8. Postemployment Benefits

School Employees Retirement System

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

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

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

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

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015, were $0, $354, and $944, respectively. The full amount has been contributed for fiscal years 2017, 2016, and 2015.

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

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

State Teachers Retirement System

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

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

9. Contingencies:

Grants:

Amounts received from grantor agencies are subject to audit and adjustments by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not yet determinable. However, in the opinion of the Academy any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

Foundation Funding:

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017. Based on the review, the Academy has reported a payable of $4,809.

10. Operating Leases:

The Academy leases its facilities from B.F. Hill Investments, Inc. under a six –year lease agreement beginning July 1, 2002 through June 30, 2008 that was extended on a monthly basis for 2009 through 2017. Rent for fiscal year 2017 totaled $40,941. The Academy has additional lease payments in fiscal year 2018 that required a $25,000 lease execution payment and an additional $4,706 from August 2017 to June 2018. The lease was renewed for a three term starting on July 1, 2017 through June 30, 2020 paying $8,334/month plus additional monthly rent of $4,706.

11. Long Term Liabilities:

The changes in the Academy's long-term obligations (non-current liabilities) during the year consist of the following:

	Obligation Outstanding 7/01/16	Additions	Reductions	Obligation Outstanding 6/30/17	Amounts Due in One Year
Net Pension Liability					
SERS	$128,912	$21,715	$0	$150,627	$0
STRS	1,944,625	425,097	0	2,369,722	0
Total	$2,073,537	$446,812	$0	$2,520,349	$0

12. Other Purchased Services:

During the fiscal year ended June 30, 2017, other purchased services rendered by various vendors were as follows:

Contract Management and Fiscal Service	$144,158
Property Services	117,590
Communications	5,756
Food Service	52,990
Other	7,625
Total Purchased Services	$328,119

13. Jointly Governed Organizations:

Metropolitan Educational Technology Association –META is an educational solutions partner providing services across Ohio. META provides cost effective fiscal, network, technology, and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META consists of a president, vice-president and six board members who represent the members of META. The board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting, and designating management. Each member's degree of control is limited to its representation on the Board. The Academy paid META $6,376 for services provided during the fiscal year.

Financial information can be obtained from David Varda, who serves as the Chief Financial Officer at 100 Executive Drive, Marion, Ohio 43302.

14. Management Service Contract

The Academy and the Educational Empowerment Group Miami Valley LLC (the "EEG") entered into a management agreement on June 1, 2017. This agreement states that the Academy will contract for educational and other services based on a percentage amount in connection with the total FTE funding.

EEG agreed to provide the requested services and receive reimbursement from the Academy pursuant to Ohio Revised Code Section 3317.11 as follows:

1. Educational program: day to day supervision of administrative and teaching staff
2. Strategic Plan
3. Education Management Information System and State Reporting
4. Federal programs/Comprehensive Continuous Improvement Plan
5. Public Relations/Student Recruitment
6. Financial Management
7. Compliance Management
8. Reporting: Sponsor agreement reports, Ohio Law and annual budget
9. Student Records
10. Service to Special Need Students
11. Facility/Facility Planning
12. Procurement – Management of Equipment/Furniture/Property
13. Subcontracts
14. School Superintendent

The agreement automatically renewed on July 1, 2018 for a two year period. The Academy pays a monthly fee of 13% of state foundation revenue and possibly increasing to 16% if certain FTE goals are met. EEG may be contacted at EEG Miami Valley, LLC. 526 South Main Street, Suite 509, Akron, Ohio 44311.

15. Subsequent Events

The Academy changed sponsors on July 1, 2018 to have Educational Resource Consultants of Ohio be the sponsor.

16. Fiscal Distress

For fiscal year 2017, the Academy had a negative net position of ($2,119,591). Excluding items related to *GASB 68 Accounting and Financial Reporting for Pension* (Deferred Outflows, Deferred Inflows and Net Pension Liability), the Academy reported a negative net position of ($18,526).

The majority of the liabilities reported ($134,831) were related to payroll expenses due and payable to the employees after year end. These costs are paid from the monthly foundation revenue collections and grant receivable ($39,917) for July and August 2017.

During those two months, the Academy received $130,856 in foundation revenues. The total receivables and foundation revenues of $170,773 exceeding the outstanding liabilities at June 30, 2017 by $35,942.

The Academy successfully completed fiscal year 2018 with a new treasurer and management company. The Academy saw the FTE counts (foundation revenue based on FTE) increase from 100 in fiscal year 2017 to 106 for fiscal year 2018. This FTE increase and state funding increases provided $85,119 more in foundation revenue to the Academy year over year.

The Board of Directors are working with the management company to continue to increase the FTE counts for fiscal year 2019. If cash flow becomes an issue for the Academy, the management company has agreed to defer any management fee until budget figures and enrollment increases. Although the new fiscal year 2019 FTE counts will not be available until October, the Academy has seen the funding levels increase resulting in an additional $24,081 in foundation revenue.

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

	2016	2015	2014	2013
The Academy's Proportion of the Net Pension Liability	0.002058%	0.002259%	0.002116%	0.002116%
The Academy's Proportionate Share of the Net Pension Liability	150,627	128,912	107,090	125,832
The Academy's Covered-Employee Payroll	57,586	86,373	49,524	51,763
The Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	261.57%	149.25%	216.24%	243.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available

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

	2016	2015	2014	2013
The Academy's Proportion of the Net Pension Liability	0.00707950%	0.00703629%	0.00691024%	0.00691024%
The Academy's Proportionate Share of the Net Pension Liability	2,369,722	1,944,625	1,680,810	2,002,169
The Academy's Covered-Employee Payroll	694,729	818,914	715,477	1,053,962
The Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	341.10%	237.46%	234.92%	189.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available

Miami Valley Academies (the Academy)
Required Supplementary Information
Schedule of the Academy's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contributions	$ 5,360	$ 8,062	$ 11,384	$ 6,864	$ 7,164	$ 6,619	$ 4,949	$ 4,834	$ 4,934	$ 1,229
Contributions in Relation to the Contractually Required Contribution	(5,360)	(8,062)	(11,384)	(6,864)	(7,164)	(6,619)	(4,949)	(4,834)	(4,934)	(1,229)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
The Academy Covered-Employee Payroll	$ 38,286	$ 57,586	$ 86,373	$ 49,524	$ 51,763	$ 49,212	$ 39,372	$ 35,702	$ 50,142	$ 12,515
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

Miami Valley Academies (the Academy)
Required Supplementary Information
Schedule of the Academy's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contributions	$ 68,917	$ 97,262	$ 114,648	$ 93,012	$ 137,015	$ 153,139	$ 83,571	$ 75,261	$ 86,809	$ 90,523
Contributions in Relation to the Contractually Required Contribution	(68,917)	(97,262)	(114,648)	(93,012)	(137,015)	(153,139)	(83,571)	(75,261)	(86,809)	(90,523)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
The Academy Covered-Employee Payroll	$ 492,264	$ 694,729	$ 818,914	$ 715,477	$ 1,053,962	$ 1,177,992	$ 642,854	$ 578,931	$ 667,762	$ 696,331
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

Miami Valley Academies
Montgomery County
5656 Springboro Pike
Moraine, Ohio 45449

To the Board of Trustees:

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 Miami Valley Academies, Montgomery County (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 5, 2018, wherein we noted the Academy has suffered recurring losses from operations and has a net position deficiency.

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.

Dave Yost
Auditor of State
Columbus, Ohio

September 5, 2018

Dave Yost • Auditor of State

MIAMI VALLEY ACADEMIES

MONTGOMERY 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
OCTOBER, 2 2018

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