

**NOBLE ACADEMY - COLUMBUS
FRANKLIN COUNTY, OHIO**

(AUDITED)

BASIC FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2019*

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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(800) 282-0370

Board of Directors
Noble Academy Columbus
1329 Bethel Road
Columbus, Ohio 43220

We have reviewed the *Independent Auditor's Report* of the Noble Academy Columbus, Franklin County, prepared by Julian & Grube, 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 Noble Academy Columbus is responsible for compliance with these laws and regulations

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

February 11, 2020

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**NOBLE ACADEMY - COLUMBUS
FRANKLIN COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Noble Academy - Columbus
Franklin County
1329 Bethel Road
Columbus, Ohio 43220

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Noble Academy - Columbus, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Noble Academy - Columbus'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 Noble Academy - Columbus' 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 Noble Academy - Columbus' 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 Noble Academy - Columbus, Franklin County, Ohio, as of June 30, 2019, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the Noble Academy - Columbus experienced current liabilities exceeding current assets at fiscal year end. Note 17 also describes management's plans regarding this matter. We did not modify our opinion 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 and other post-employment benefit liabilities/asset 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 18, 2019, on our consideration of the Noble Academy - Columbus' 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 Noble Academy - Columbus' internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 18, 2019

The discussion and analysis of Noble Academy – Columbus' (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2019. Readers should also review the financial statements and notes to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2019 are as follows:

- Total assets were \$716,570.
- Total liabilities were \$3,364,250.
- Total net position increased by \$260,764.

Using this Financial Report

This report consists of three parts: 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.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and deferred outflows of resources, and liabilities and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net position – the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, as reported in the Statement of Net Position – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position – as reported in the Statement of Revenues, Expenses and Change in Net Position – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The Statement of Net Position and the Statement of Revenues, Expenses and Change in Net Position report the activities of the Academy, which encompass all the Academy's services, including instruction and supporting services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a comparison of net position as of June 30, 2019 with net position as of June 30, 2018.

Table 1
Net Position

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| <u>Assets</u> | | |
| Current and Other Assets | \$ 424,607 | \$ 254,354 |
| Capital Assets, Net | 291,963 | 312,568 |
| Total Assets | 716,570 | 566,922 |
| <u>Deferred Outflows of Resources</u> | 1,016,070 | 1,393,254 |
| <u>Liabilities</u> | | |
| Current Liabilities | 257,385 | 282,185 |
| Noncurrent Liabilities | 3,106,865 | 3,909,128 |
| Total Liabilities | 3,364,250 | 4,191,313 |
| <u>Deferred Inflows of Resources</u> | 546,805 | 208,042 |
| <u>Net Position</u> | | |
| Net Investment in Capital Assets | 159,963 | 191,238 |
| Unrestricted | (2,338,378) | (2,630,417) |
| Total Net Position | \$ (2,178,415) | \$ (2,439,179) |

The net pension liability is reported pursuant to Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." The net other postemployment benefits (OPEB) liability/asset is reported pursuant to 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.

GASB 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 liability/asset to equal the Academy's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.
2. 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. The retirement system is responsible for the administration of the pension and OPEB plans.

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 liability/asset, respectively, not accounted for as deferred inflows/outflows.

Deferred outflows related to pension decreased primarily due to changes in assumptions by the State Teachers Retirement System (STRS). See Note 6 for more detail.

Total assets include a net OPEB asset reported by STRS. See Note 7 for more detail. STRS did not report a net pension asset in the prior year.

Deferred inflows related to OPEB increased primarily due to changes in assumptions by STRS. See Note 7 for more detail.

Long-term liabilities decreased primarily due to a decrease in the net pension liability and net OPEB liability. These liabilities are outside of the control of the Academy. The Academy contributes its statutorily required contributions to the pension systems; however, it's the pension systems that collect, hold and distribute pensions and OPEB to Academy employees, not the Academy.

Table 2 shows the changes in net position for the fiscal years 2019 and 2018.

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|-----------------------|-----------------------|
| <u>Operating Revenues</u> | | |
| Foundation payments | \$ 2,291,059 | \$ 2,693,016 |
| Classroom fees | 225 | 665 |
| Extracurricular activities | 12,795 | 13,189 |
| Other revenue | 13,834 | 24,794 |
| Total operating revenues | 2,317,913 | 2,731,664 |
| <u>Operating Expenses</u> | | |
| Salaries | 1,606,591 | 1,540,451 |
| Fringe benefits | 107,779 | (1,050,347) |
| Purchased services | 1,118,252 | 1,159,587 |
| Materials and supplies | 117,480 | 138,542 |
| Depreciation | 93,361 | 90,095 |
| Miscellaneous | 99,825 | 103,474 |
| Total operating expenses | 3,143,288 | 1,981,802 |
| Operating income (loss) | (825,375) | 749,862 |
| <u>Nonoperating Revenues</u> | | |
| Restricted grants in aid - federal | 611,386 | 586,373 |
| State and other grants | 347,007 | 90,281 |
| Donated management fee | 127,746 | 139,329 |
| Total nonoperating revenues | 1,086,139 | 815,983 |
| Change in net position | 260,764 | 1,565,845 |
| Net position, beginning of year | (2,439,179) | (4,005,024) |
| Net position, end of year | \$ (2,178,415) | \$ (2,439,179) |

Overall, expenses increased \$1,161,486 or 58.61%. This increase is primarily the result of the STRS indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50% in fiscal year 2018. These benefit changes caused a decrease to the net pension liability reported at June 30, 2018 and the subsequent expenses reported for fiscal year 2018.

On an accrual basis, the Academy reported \$415,280 and (\$1,054,855) in pension expense for fiscal year 2019 and 2018, respectively. In addition, the Academy reported (\$454,827) and (\$153,794) in OPEB expense for fiscal year 2019 and 2018, respectively. The increase in both the net pension expense and the OPEB expense from fiscal year 2018 to fiscal year 2019 was \$1,169,102. This increase is primarily the result of the benefit changes by the retirement systems. Fluctuations in the pension and OPEB expense makes it difficult to compare financial information between years. The Academy's total expenses for fiscal year 2019 are comparable to total fiscal year 2017 expenses.

Salaries expense increased due to an increase in the number of employees in fiscal year 2019 versus the prior year.

Foundation support decreased \$401,957 in part due to a decrease in enrollment but primarily due to the classification of economic disadvantaged funding as state and other grants revenue in fiscal year 2019 as compared to foundation revenue in fiscal year 2018. This also explains the increase in state and other grants revenue when compared to fiscal year 2018. Federal grants increased in the amount of \$30,013.

Foundation support is the primary support of the Academy, comprising 99% of operating revenue and 67% of total revenues. The Academy also received a significant portion of federal grants, which represent 18% of total revenue. Net position increased \$265,764.

Capital Assets

At the end of fiscal year 2019, the Academy had \$595,418 invested in improvements and equipment (\$291,963 net of accumulated depreciation). Table 3 shows the balances at June 30, 2019 and June 30, 2018.

Table 3
Capital Assets

| | Balance | Balance |
|---|----------------------|----------------------|
| | June 30, 2019 | June 30, 2018 |
| Capital Assets, Being Depreciated: | | |
| Improvements | \$ 459,081 | \$ 421,713 |
| Equipment Instructional | 111,752 | 219,314 |
| Equipment Office | 24,585 | 17,912 |
| Total Capital Assets | 595,418 | 658,939 |
| Less: Accumulated Depreciation | (303,455) | (346,371) |
| Net Capital Assets | \$ 291,963 | \$ 312,568 |

For more information on capital assets see Note 5 to the basic financial statements.

Debt

Table 4 shows the Academy's long-term debt obligations outstanding at June 30, 2019 and June 30, 2018:

Table 4
Notes Payable

| | <u>Balance</u> <u>June 30, 2019</u> | <u>Balance</u> <u>June 30, 2018</u> |
|-------------------------|--|--|
| Promissory Note Payable | <u>\$ 132,000</u> | <u>\$ 232,000</u> |

For more information on note payable see Note 11 to the basic financial statements.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Begmurat Nepesov, Treasurer, Noble Academy - Columbus, 1329 Bethel Rd., Columbus, OH 43220.

Noble Academy - Columbus

Statement of Net Position

June 30, 2019

ASSETS:

Current Assets:

| | |
|------------------------------|----------------|
| Cash and cash equivalents | \$ 196,352 |
| Intergovernmental receivable | 1,150 |
| Prepaid items | 6,894 |
| Total current assets | 204,396 |

Noncurrent Assets:

| | |
|---------------------------------|----------------|
| Lease agreement deposit | 10,670 |
| Net OPEB asset | 209,541 |
| Depreciable capital assets, net | 291,963 |
| Total noncurrent assets | 512,174 |

Total Assets **716,570**

DEFERRED OUTFLOWS OF RESOURCES:

| | |
|---------|---------|
| Pension | 986,969 |
| OPEB | 29,101 |

Total Deferred Outflows of Resources **1,016,070**

LIABILITIES:

Current Liabilities:

| | |
|------------------------------------|----------------|
| Accounts payable | 73,836 |
| Accrued wages and benefits payable | 146,278 |
| Intergovernmental payable | 1,271 |
| Note payable | 36,000 |
| Total current liabilities | 257,385 |

Noncurrent Liabilities:

| | |
|-------------------------------------|------------------|
| Net pension liability | 2,963,544 |
| Net OPEB liability | 47,321 |
| Note payable | 96,000 |
| Total noncurrent liabilities | 3,106,865 |

Total Liabilities **3,364,250**

DEFERRED INFLOWS OF RESOURCES:

| | |
|---------|---------|
| Pension | 211,263 |
| OPEB | 335,542 |

Total Deferred Inflows of Resources **546,805**

NET POSITION:

| | |
|----------------------------------|-------------|
| Net investment in capital assets | 159,963 |
| Unrestricted | (2,338,378) |

Total Net Position **\$ (2,178,415)**

See accompanying notes to the basic financial statements.

Noble Academy - Columbus
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

OPERATING REVENUES:

| | | |
|----------------------------|----|-----------|
| Foundation payments | \$ | 2,291,059 |
| Classroom fees | | 225 |
| Extracurricular activities | | 12,795 |
| Other revenue | | 13,834 |

| | | |
|---------------------------------|--|------------------|
| Total operating revenues | | 2,317,913 |
|---------------------------------|--|------------------|

OPERATING EXPENSES:

| | | |
|------------------------|--|-----------|
| Salaries | | 1,606,591 |
| Fringe benefits | | 107,779 |
| Purchased services | | 1,118,252 |
| Materials and supplies | | 117,480 |
| Depreciation | | 93,361 |
| Miscellaneous | | 99,825 |

| | | |
|---------------------------------|--|------------------|
| Total operating expenses | | 3,143,288 |
|---------------------------------|--|------------------|

| | | |
|-----------------------|--|------------------|
| Operating loss | | (825,375) |
|-----------------------|--|------------------|

NONOPERATING REVENUES:

| | | |
|------------------------------------|--|---------|
| Restricted grants in aid - federal | | 611,386 |
| State and other grants | | 347,007 |
| Donated management fee | | 127,746 |

| | | |
|------------------------------------|--|------------------|
| Total nonoperating revenues | | 1,086,139 |
|------------------------------------|--|------------------|

| | | |
|------------------------|--|---------|
| Change in net position | | 260,764 |
|------------------------|--|---------|

| | | |
|---------------------------------|--|-------------|
| Net position, beginning of year | | (2,439,179) |
|---------------------------------|--|-------------|

| | | |
|----------------------------------|-----------|--------------------|
| Net position, end of year | \$ | (2,178,415) |
|----------------------------------|-----------|--------------------|

See accompanying notes to the basic financial statements.

Noble Academy - Columbus
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|--|----|------------------|
| Cash received from State of Ohio | \$ | 2,291,059 |
| Other cash receipts | | 26,854 |
| Cash payments to employees for services and benefits | | (1,975,566) |
| Cash payments to suppliers for goods and services | | (1,074,341) |
| Other cash payment | | (99,825) |
| Net cash (used in) operating activities | | (831,819) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

| | | |
|---|--|----------------|
| Federal grants received | | 623,307 |
| State and other grants received | | 347,007 |
| Net cash provided by noncapital financing activities | | 970,314 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

| | | |
|--|--|------------------|
| Principal paid on notes | | (100,000) |
| Cash payments for capital acquisitions | | (72,756) |
| Net cash (used in) capital and related financing activities | | (172,756) |

| | | |
|---|-----------|----------------|
| Net decrease in cash and cash equivalents | | (34,261) |
| Cash and cash equivalents at beginning of year | | 230,613 |
| Cash and cash equivalents at end of year | \$ | 196,352 |

RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) OPERATING ACTIVITIES

| | | |
|----------------|----|-----------|
| Operating loss | \$ | (825,375) |
|----------------|----|-----------|

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH (USED IN) OPERATING ACTIVITIES

| | | |
|------------------------|--|---------|
| Depreciation | | 93,361 |
| Donated management fee | | 127,746 |

Changes in assets, liabilities, deferred outflows of resources, and deferred inflows of resources:

| | | |
|--|--|----------------|
| (Increase) in prepaid assets | | (6,894) |
| Increase in accounts payable | | 56,585 |
| Increase in accrued wages and benefits payable | | 5,838 |
| (Decrease) in payroll liabilities | | (283) |
| (Decrease) in intergovernmental payable | | (22,940) |
| (Increase) in net OPEB asset | | (209,541) |
| Decrease in deferred outflows of resources | | 377,184 |
| Increase in deferred inflows of resources | | 338,763 |
| (Decrease) in net pension liability | | (254,211) |
| (Decrease) in net OPEB liability | | (512,052) |
| Total adjustments | | (6,444) |

| | | |
|--|-----------|------------------|
| Net cash (used in) operating activities | \$ | (831,819) |
|--|-----------|------------------|

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Noble Academy - Columbus, (the Academy), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades K through eight in Columbus. The Academy, which is part of the State's education program, is independent of any school and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

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 qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy was approved for operation under contract with the Buckeye Hope Foundation (the Sponsor) for a period of five years commencing March 15, 2006. In May 2010, the contract was extended for another five years until June 30, 2015. The contract has been extended through June 30, 2020.

The Academy operates under the direction of a self-appointed five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which includes, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. In fiscal year 2019, the Academy employed 40 personnel and had approximately 333 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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

The Academy's basic financial statements consist of a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows.

The Academy uses enterprise accounting to report its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its 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 associated with the operation of the Academy are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (e.g., revenues) and decreases (e.g., 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. 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. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants, entitlements and donations are recognized in the period in which all eligibility requirements have been satisfied. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. Expenses are recognized at the time they are incurred.

C. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not require the Academy to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements. However, the contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis.

D. Cash

To improve cash management, all cash received by the Academy is pooled. Total cash amounts at the end of the fiscal year is presented as “Cash and cash equivalents” in the Statement of Net Position. For the purposes of the Statement of Cash Flows and for presentation on the Statement of Net Position, any investment with an original maturity date less than 90 days is considered a cash equivalent and any investment with a maturity date greater than 90 days is considered an investment. The Academy did not have any investments during fiscal year 2019.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. 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 capitalized. Improvements are capitalized. The Academy does not capitalize interest. The Academy does not have any infrastructure.

Capital assets are depreciated using the straight-line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated using the straight-line method over the life of the lease.

| | <u>Useful Life</u> |
|-------------------------|--------------------|
| Improvements | 5 to 10 years |
| Equipment Office | 5 to 10 years |
| Equipment Instructional | 3 to 5 years |
| Vehicles | 3 to 10 years |

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, Special Education Program, and Federal CCIP Program. Revenues received from the State Foundation Program are recognized as operating revenues whereas revenues from the Federal CCIP Program, Special Education Program and other State Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

H. Compensated Absences

The Academy's policy indicates that all full-time employees are entitled to eight days of sick/personal leave in a school year. Also, Full time employees who have worked for the Academy for a total of 200 to 210 days during the contract year will be allowed nine days of paid sick or personal leave. Full time employees who have worked for the Academy 210 or more days during the contract year will be allowed ten days of paid sick or personal leave. All leave earned by employees must be used within the current school year and cannot be transferred to the next school year, and therefore, are not recorded as a liability. The Academy compensates its employees \$150 per day for each unused sick/personal day at the end of the year.

I. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. At the end of the fiscal year ended June 30, 2019, the Academy did not have any restricted net position.

J. Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, see Notes 6 and 7 for deferred outflows of resources related to the Academy's net pension liability and net OPEB liability/asset, respectively.

In addition to liabilities, the statement of net position will 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 as an inflow of resources (revenue) until that time. For the Academy, see Notes 6 and 7 for deferred inflows of resources related to the Academy's net pension liability and net OPEB liability/asset, respectively.

L. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, net OPEB asset, deferred outflows of resources and deferred inflows of resources related 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.

M. Prepayments

Certain payments to vendors reflected the costs applicable to future accounting periods and were recorded as prepaid items in the financial statements. These items were reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts was recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2019, the Academy has implemented 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 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Academy.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the Academy.

4. DEPOSITS

At June 30, 2019, the carrying amount of the Academy's deposits was \$196,352 and the bank balance of Academy's deposits was \$202,201. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

| | Balance | | | Balance |
|--|----------------------|--------------------|------------------|----------------------|
| | June 30, 2018 | Additions | Deletions | June 30, 2019 |
| Capital Assets, Being Depreciated: | | | | |
| Improvements | \$ 421,713 | \$ 47,368 | \$ (10,000) | \$ 459,081 |
| Equipment Instructional | 219,314 | 18,715 | (126,277) | 111,752 |
| Equipment Office | 17,912 | 6,673 | - | 24,585 |
| Total Capital Assets | 658,939 | 72,756 | (136,277) | 595,418 |
| Less: Accumulated Depreciation Improvements | (191,546) | (53,383) | 10,000 | (234,929) |
| Less: Accumulated Depreciation Equipment Instructional | (150,048) | (34,714) | 126,277 | (58,485) |
| Less: Accumulated Depreciation Equipment Office | (4,777) | (5,265) | - | (10,042) |
| Net Capital Assets | \$ 312,568 | \$ (20,606) | \$ - | \$ 291,962 |

6. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

6. DEFINED BENEFIT PENSION PLANS (Continued)

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 as an *accrued wages and benefits payable*.

Plan Description - School Employees Retirement System (SERS)

Plan Description - The Academy 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 after August 1, 2017 |
|------------------------------|---|--|
| Full benefits | Age 65 with 5 years of services 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; 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 years of service; 2.2% for the first thirty years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

6. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% 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% for plan members and 14% 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%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$5,999 for fiscal year 2019. Of this amount, \$810 is reported as an accrued wages and benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers 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 website 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% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. 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 credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% 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 service. 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.

6. DEFINED BENEFIT PENSION PLANS (Continued)

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.

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 fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The Academy was required to contribute 14%; the entire 14% 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 \$214,089 for fiscal year 2019. Of this amount, \$16,911 is reported as an accrued wages and benefits 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, 2018, 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 projected contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|---------------------|--------------------|--------------|
| Proportion of the net pension liability prior measurement date | 0.00206870% | 0.01302516% | |
| Proportion of the net pension liability current measurement date | <u>0.00168170%</u> | <u>0.01304012%</u> | |
| Change in proportionate share | <u>-0.00038700%</u> | <u>0.00001496%</u> | |
| Proportionate share of the net pension liability | \$ 96,314 | \$ 2,867,230 | \$ 2,963,544 |
| Pension expense | \$ 14,004 | \$ 401,276 | \$ 415,280 |

6. DEFINED BENEFIT PENSION PLANS (Continued)

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

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|------------------|-------------------|-------------------|
| Deferred outflows of resources | | | |
| Differences between expected and actual experience | \$ 5,282 | \$ 66,184 | \$ 71,466 |
| Changes of assumptions | 2,174 | 508,127 | 510,301 |
| Difference between Academy contributions and proportionate share of contributions/ change in proportionate share | 5,482 | 179,632 | 185,114 |
| Academy contributions subsequent to the measurement date | <u>5,999</u> | <u>214,089</u> | <u>220,088</u> |
| Total deferred outflows of resources | <u>\$ 18,937</u> | <u>\$ 968,032</u> | <u>\$ 986,969</u> |
| Deferred inflows of resources | | | |
| Differences between expected and actual experience | \$ - | \$ 18,724 | \$ 18,724 |
| Net difference between projected and actual earnings on pension plan investments | 2,670 | 173,868 | 176,538 |
| Difference between Academy contributions and proportionate share of contributions/ change in proportionate share | <u>14,842</u> | <u>1,159</u> | <u>16,001</u> |
| Total deferred inflows of resources | <u>\$ 17,512</u> | <u>\$ 193,751</u> | <u>\$ 211,263</u> |

\$220,088 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, 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:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|-------------------|-------------------|-------------------|
| Fiscal Year Ending June 30: | | | |
| 2020 | \$ 3,181 | \$ 371,750 | \$ 374,931 |
| 2021 | (3,774) | 205,444 | 201,670 |
| 2022 | (3,158) | 20,487 | 17,329 |
| 2023 | <u>(823)</u> | <u>(37,489)</u> | <u>(38,312)</u> |
| Total | <u>\$ (4,574)</u> | <u>\$ 560,192</u> | <u>\$ 555,618</u> |

6. DEFINED BENEFIT PENSION PLANS (Continued)

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, 2018, are presented below:

| | |
|--|--|
| Wage inflation | 3.00% |
| Future salary increases, including inflation | 3.50% to 18.20% |
| COLA or ad hoc COLA | 2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement |
| Investment rate of return | 7.50% net of investments expense, including inflation |
| Actuarial cost method | Entry age normal (level percent of payroll) |

For 2018, the mortality rates were based on the 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 were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the 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 most recent experience study was completed for the five-year period ended June 30, 2015.

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 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.

6. DEFINED BENEFIT PENSION PLANS (Continued)

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

| 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 |
| Total | 100.00 % | |

Discount Rate - The total pension liability was calculated using the discount rate of 7.50%. 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%). 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%, 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%), or one percentage point higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|--------------------------|------------------------|
| Academy's proportionate share of the net pension liability | \$ 135,666 | \$ 96,314 | \$ 63,320 |

6. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation is presented below:

| | July 1, 2018 |
|--------------------------------------|---|
| Inflation | 2.50% |
| Projected salary increases | 12.50% at age 20 to 2.50% at age 65 |
| Investment rate of return | 7.45%, net of investment expenses, including inflation |
| Payroll increases | 3.00% |
| Cost-of-living adjustments (COLA) | 0.0%, effective July 1, 2017 |

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees 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. Post-retirement disabled 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. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS Ohio’s 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:

| 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 |
| Total | <u>100.00 %</u> | |

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

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

6. DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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 7.45%, 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%) or one-percentage-point higher (8.45%) than the current rate:

| | 1% Decrease (6.45%) | Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|------------------------|--------------------------|------------------------|
| Academy's proportionate share of the net pension liability | \$ 4,187,211 | \$ 2,867,230 | \$ 1,750,044 |

7. DEFINED BENEFIT OPEB PLANS**Net OPEB Liability/Asset**

The net OPEB liability/asset reported on the statement of net position represents a liability/asset 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 liability/asset 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 liability/asset 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.

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 OPEB are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation 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 liability/asset. Resulting adjustments to the net OPEB liability/asset 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.

7. DEFINED BENEFIT OPEB PLANS (Continued)

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* or *net OPEB asset* on the accrual basis of accounting. Any liability for the contractually required OPEB contribution outstanding at the end of the year is included as an *accrued wages and benefits payable*.

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% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% 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% 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 2019, the Academy did not have a surcharge obligation.

The Academy's contractually required contribution to SERS was \$222 for fiscal year 2019. Of this amount, \$30 is reported as an accrued wages and benefits payable.

Plan Description - State Teachers 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.

7. DEFINED BENEFIT OPEB PLANS (Continued)

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% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability/asset 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:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|---------------------|--------------------|--------------|
| Proportion of the net OPEB liability prior measurement date | 0.00190700% | 0.01302516% | |
| Proportion of the net OPEB liability/asset current measurement date | <u>0.00170570%</u> | <u>0.01304012%</u> | |
| Change in proportionate share | <u>-0.00020130%</u> | <u>0.00001496%</u> | |
| Proportionate share of the net OPEB liability | \$ 47,321 | \$ - | \$ 47,321 |
| Proportionate share of the net OPEB asset | \$ - | \$ (209,541) | \$ (209,541) |
| OPEB expense | \$ (1,045) | \$ (453,782) | \$ (454,827) |

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

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|---------------|------------------|------------------|
| Deferred outflows of resources | | | |
| Differences between expected and actual experience | \$ 772 | \$ 24,475 | \$ 25,247 |
| Difference between Academy contributions and proportionate share of contributions/ change in proportionate share | - | 3,632 | 3,632 |
| Academy contributions subsequent to the measurement date | <u>222</u> | <u>-</u> | <u>222</u> |
| Total deferred outflows of resources | <u>\$ 994</u> | <u>\$ 28,107</u> | <u>\$ 29,101</u> |

7. DEFINED BENEFIT OPEB PLANS (Continued)

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|------------------|-------------------|-------------------|
| Deferred inflows of resources | | | |
| Differences between expected and actual experience | \$ - | \$ 12,208 | \$ 12,208 |
| Net difference between projected and actual earnings on pension plan investments | 71 | 23,938 | 24,009 |
| Changes of assumptions | 4,251 | 285,516 | 289,767 |
| Difference between Academy contributions and proportionate share of contributions/change in proportionate share | <u>9,558</u> | <u>-</u> | <u>9,558</u> |
| Total deferred inflows of resources | <u>\$ 13,880</u> | <u>\$ 321,662</u> | <u>\$ 335,542</u> |

\$222 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/asset in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ending June 30: | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|--------------------|---------------------|---------------------|
| 2020 | \$ (5,111) | \$ (52,500) | \$ (57,611) |
| 2021 | (4,159) | (52,500) | (56,659) |
| 2022 | (1,144) | (52,498) | (53,642) |
| 2023 | (1,115) | (47,063) | (48,178) |
| 2024 | (1,119) | (45,154) | (46,273) |
| Thereafter | <u>(460)</u> | <u>(43,840)</u> | <u>(44,300)</u> |
| Total | <u>\$ (13,108)</u> | <u>\$ (293,555)</u> | <u>\$ (306,663)</u> |

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.

7. DEFINED BENEFIT OPEB PLANS (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

| | |
|---|---|
| Wage inflation | 3.00% |
| Future salary increases, including inflation | 3.50% to 18.20% |
| Investment rate of return | 7.50% net of investments expense, including inflation |
| Municipal bond index rate: | |
| Measurement date | 3.62% |
| Prior measurement date | 3.56% |
| Single equivalent interest rate, net of plan investment expense, including price inflation: | |
| Measurement date | 3.70% |
| Prior measurement date | 3.63% |
| Medical trend assumption: | |
| Medicare | 5.375 to 4.75% |
| Pre-Medicare | 7.25 to 4.75% |

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120% of male rates and 110% of female rates. RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015 and was adopted by the Board on April 21, 2016. Several 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 log-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%, 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.

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:

| 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 |
| Total | <u>100.00 %</u> | |

7. DEFINED BENEFIT OPEB PLANS (Continued)

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% 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%, 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. A municipal bond rate of 3.56% was used as of June 30, 2017. 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.

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 of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

| | 1% Decrease (2.70%) | Current Discount Rate (3.70%) | 1% Increase (4.70%) |
|--|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net OPEB liability | \$ 57,420 | \$ 47,321 | \$ 39,324 |

| | 1% Decrease (6.25 % decreasing to 3.75 %) | Current Trend Rate (7.25 % decreasing to 4.75 %) | 1% Increase (8.25 % decreasing to 5.75 %) |
|--|---|---|---|
| Academy's proportionate share of the net OPEB liability | \$ 38,179 | \$ 47,321 | \$ 59,426 |

7. DEFINED BENEFIT OPEB PLANS (Continued)**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

| | July 1, 2018 | | July 1, 2017 |
|--------------------------------------|---|----------|---|
| | Initial | Ultimate | |
| Inflation | 2.50% | | 2.50% |
| Projected salary increases | 12.50% at age 20 to 2.50% at age 65 | | 12.50% at age 20 to 2.50% at age 65 |
| Investment rate of return | 7.45%, net of investment expenses, including inflation | | 7.45%, net of investment expenses, including inflation |
| Payroll increases | 3.00% | | 3.00% |
| Cost-of-living adjustments (COLA) | 0.00% | | 0.00%, effective July 1, 2017 |
| Discounted rate of return | 7.45% | | N/A |
| Blended discount rate of return | N/A | | 4.13% |
| Health care cost trends | | | 6 to 11% initial, 4.50% ultimate |
| Medical | | | |
| Pre-Medicare | 6.00% | 4.00% | |
| Medicare | 5.00% | 4.00% | |
| Prescription Drug | | | |
| Pre-Medicare | 8.00% | 4.00% | |
| Medicare | -5.23% | 4.00% | |

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

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.

Actuarial assumptions used in the June 30, 2018, valuation is based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Benefit Term Changes Since the Prior Measurement Date - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% to 1.944% 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.

7. DEFINED BENEFIT OPEB PLANS (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:

| 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 |
| Total | 100.00 % | |

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

** The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018.

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%, 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%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were 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.

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|--|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net OPEB asset | \$ 179,597 | \$ 209,541 | \$ 234,709 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|--|-------------|-----------------------|-------------|
| Academy's proportionate share of the net OPEB asset | \$ 233,288 | \$ 209,541 | \$ 185,425 |

8. 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 Hanover Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage in any of the last three fiscal years.

B. Workers Compensation

The Academy pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. 100% of this premium was paid for during fiscal year 2019.

9. EMPLOYEE MEDICAL AND DENTAL BENEFITS

The Academy has contracted with a private carrier to provide employee medical/surgical benefits. The Academy pays 60% of the monthly premium and the employee is responsible for the remaining 40%. The Academy has also contracted with private carriers to provide dental coverage. The Academy pays 60% of the monthly premium and the employee is responsible for the remaining 40%.

10. PURCHASED SERVICES

Purchased service expenses during fiscal year 2019 were as follows:

Purchased Services

| <u>Type</u> | <u>Amount</u> |
|------------------------------------|---------------------|
| Professional Services | \$ 476,284 |
| Rent and Property Services | 350,801 |
| Travel Mileage/Meeting Expense | 2,343 |
| Advertising and Communications | 20,103 |
| Utility Services | 51,014 |
| Contracted Craft or Trade Services | 177,890 |
| Other Purchased Services | 39,817 |
| Total | \$ 1,118,252 |

11. NOTE PAYABLE

The following is a schedule of the note payable activity during fiscal year 2019:

| | Balance | | | Balance |
|-------------------------|----------------------|------------------|------------------|----------------------|
| | June 30, 2018 | Additions | Deletions | June 30, 2019 |
| Promissory Note Payable | \$ 232,000 | \$ - | \$ (100,000) | \$ 132,000 |

The Academy received \$375,000 in long term promissory notes from Horizon Science Academy Columbus Elementary School, in fiscal year 2015 and prior. During fiscal year 2019, the Academy made a \$100,000 principal payment on the note. The note is interest free and is to be paid in full no later than June 30, 2024.

A summary of the Academy's future debt service requirements on the note payable as of June 30, 2019, follows:

| Fiscal Year | Principal |
|------------------------|-------------------|
| Ending June 30, | |
| 2020 | \$ 36,000 |
| 2021 | 36,000 |
| 2022 | 36,000 |
| 2023 | 24,000 |
| | <u>\$ 132,000</u> |

12. OPERATING LEASES

On July 1, 2009, the Academy entered into a five-year lease agreement with B & A Realty, which was renewed for another five years on July 1, 2014, for the three buildings at 1329 Bethel Road. In the fiscal year 2019, the Academy paid a total of \$171,390 for rent. In Academy renewed the leased for another five years on July 1, 2019.

13. CONTINGENCIES

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 Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2019, the Academy received grants from State and Federal agencies totaling \$958,393.

14. SPONSORSHIP AGREEMENT

On June 30, 2015, the Academy renewed its sponsorship agreement with Buckeye Hope Foundation for five years. 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. According to the contract agreed by both parties, the Academy pays 3% of its foundation revenues to the Sponsor. In fiscal year 2019, the Academy paid \$76,418 to the Sponsor as a sponsor fee payment for Buckeye Hope Foundation.

15. MANAGEMENT COMPANY AGREEMENT

The Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one-year terms unless the Academy or the management company decides otherwise. The management contract was amended in fiscal year 2017. According to amended terms, the Academy shall automatically transfer ten percent (10%) of the funds received from the State when such funds are immediately available in the Academy's accounts. In fiscal year 2019, the Academy paid \$200,000 to Concept Schools for management services, and the remaining fee balance of \$127,746 was forgiven by Concept Schools, and is reflected in the Statement of Revenues, Expenses and Change in Net Position as donated management fee.

16. RELATED PARTIES

The Board members for the Academy are also Board members for other Horizon Science Academy Schools that are managed by the same management company, Concept Schools, Inc.

17. FINANCIAL PLAN

The Academy at year-end experienced current liabilities exceeding current assets by \$52,989. The net position deficit is caused by the net pension and OPEB related account balances. Concept Schools, Inc. (the management company) is continually monitoring and assisting the Academy to enhance its financial position.

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REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST SIX FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|-------------|
| Academy's proportion of the net pension liability | 0.00168170% | 0.00206870% | 0.00220200% | 0.00184210% |
| Academy's proportionate share of the net pension liability | \$ 96,314 | \$ 123,600 | \$ 161,166 | \$ 105,112 |
| Academy's covered payroll | \$ 76,319 | \$ 67,607 | \$ 72,643 | \$ 55,455 |
| Academy's proportionate share of the net pension liability as a percentage of its covered payroll | 126.20% | 182.82% | 221.86% | 189.54% |
| Plan fiduciary net position as a percentage of the total pension liability | 71.36% | 69.50% | 62.98% | 69.16% |

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| <u>2015</u> | <u>2014</u> |
|-------------|-------------|
| 0.00101100% | 0.00101100% |
| \$ 51,166 | \$ 60,121 |
| \$ 29,365 | \$ 27,355 |
| 174.24% | 219.78% |
| 71.70% | 65.52% |

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST SIX FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|--------------|--------------|--------------|--------------|
| Academy's proportion of the net pension liability | 0.01304012% | 0.01302516% | 0.01294401% | 0.01222605% |
| Academy's proportionate share of the net pension liability | \$ 2,867,230 | \$ 3,094,155 | \$ 4,332,750 | \$ 3,378,923 |
| Academy's covered payroll | \$ 1,491,757 | \$ 1,410,829 | \$ 1,377,629 | \$ 1,275,586 |
| Academy's proportionate share of the net pension liability as a percentage of its covered payroll | 192.20% | 219.31% | 314.51% | 264.89% |
| Plan fiduciary net position as a percentage of the total pension liability | 77.31% | 75.30% | 66.80% | 72.10% |

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| <u>2015</u> | <u>2014</u> |
|--------------|--------------|
| 0.01072671% | 0.01072671% |
| \$ 2,609,107 | \$ 3,107,951 |
| \$ 1,095,969 | \$ 991,500 |
| 238.06% | 313.46% |
| 74.70% | 69.30% |

SCHEDULE OF ACADEMY'S PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|----------------|-----------------|----------------|-----------------|
| Contractually required contribution | \$ 5,999 | \$ 10,303 | \$ 9,465 | \$ 10,170 |
| Contributions in relation to the contractually required contribution | <u>(5,999)</u> | <u>(10,303)</u> | <u>(9,465)</u> | <u>(10,170)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Academy's covered payroll | \$ 44,437 | \$ 76,319 | \$ 67,607 | \$ 72,643 |
| Contributions as a percentage of covered payroll | 13.50% | 13.50% | 14.00% | 14.00% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|----------------|----------------|----------------|----------------|----------------|----------------|
| \$ 7,309 | \$ 4,070 | \$ 3,786 | \$ 7,343 | \$ 4,746 | \$ 4,019 |
| <u>(7,309)</u> | <u>(4,070)</u> | <u>(3,786)</u> | <u>(7,343)</u> | <u>(4,746)</u> | <u>(4,019)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 55,455 | \$ 29,365 | \$ 27,355 | \$ 54,595 | \$ 37,757 | \$ 29,682 |
| 13.18% | 13.86% | 13.84% | 13.45% | 12.57% | 13.54% |

SCHEDULE OF ACADEMY'S PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 214,089 | \$ 208,846 | \$ 197,516 | \$ 192,868 |
| Contributions in relation to the contractually required contribution | <u>(214,089)</u> | <u>(208,846)</u> | <u>(197,516)</u> | <u>(192,868)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Academy's covered payroll | \$ 1,529,207 | \$ 1,491,757 | \$ 1,410,829 | \$ 1,377,629 |
| Contributions as a percentage of covered payroll | 14.00% | 14.00% | 14.00% | 14.00% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------|------------------|------------------|------------------|-----------------|-----------------|
| \$ 178,582 | \$ 142,476 | \$ 128,895 | \$ 113,040 | \$ 97,163 | \$ 89,055 |
| <u>(178,582)</u> | <u>(142,476)</u> | <u>(128,895)</u> | <u>(113,040)</u> | <u>(97,163)</u> | <u>(89,055)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 1,275,586 | \$ 1,095,969 | \$ 991,500 | \$ 869,538 | \$ 747,408 | \$ 685,038 |
| 14.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|-------------|
| Academy's proportion of the net OPEB liability | 0.00170570% | 0.00190700% | 0.00218454% |
| Academy's proportionate share of the net OPEB liability | \$ 47,321 | \$ 51,179 | \$ 62,267 |
| Academy's covered payroll | \$ 76,319 | \$ 67,607 | \$ 72,643 |
| Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll | 62.00% | 75.70% | 85.72% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 13.57% | 12.46% | 11.49% |

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY/ASSET
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|--------------|--------------|--------------|
| Academy's proportion of the net OPEB liability/asset | 0.01304012% | 0.01302516% | 0.01294401% |
| Academy's proportionate share of the net OPEB liability/(asset) | \$ (209,541) | \$ 508,194 | \$ 692,249 |
| Academy's covered payroll | \$ 1,491,757 | \$ 1,410,829 | \$ 1,377,629 |
| Academy's proportionate share of the net OPEB liability/asset as a percentage of its covered payroll | 14.05% | 36.02% | 50.25% |
| Plan fiduciary net position as a percentage of the total OPEB liability/asset | 176.00% | 47.10% | 37.33% |

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY'S OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|--------------|----------------|--------------|--------------|
| Contractually required contribution | \$ 222 | \$ 1,302 | \$ 150 | \$ 904 |
| Contributions in relation to the contractually required contribution | <u>(222)</u> | <u>(1,302)</u> | <u>(150)</u> | <u>(904)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Academy's covered payroll | \$ 44,437 | \$ 76,319 | \$ 67,607 | \$ 72,643 |
| Contributions as a percentage of covered payroll | 0.50% | 1.71% | 0.22% | 1.24% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--------------|--------------|-------------|--------------|--------------|--------------|
| \$ 712 | \$ 345 | \$ 41 | \$ 229 | \$ 460 | \$ 125 |
| <u>(712)</u> | <u>(345)</u> | <u>(41)</u> | <u>(229)</u> | <u>(460)</u> | <u>(125)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 55,455 | \$ 29,365 | \$ 27,355 | \$ 54,595 | \$ 37,757 | \$ 29,682 |
| 1.28% | 1.17% | 0.15% | 0.42% | 1.22% | 0.42% |

SCHEDULE OF ACADEMY'S OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|--------------|--------------|--------------|--------------|
| Contractually required contribution | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the contractually required contribution | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Academy's covered payroll | \$ 1,529,207 | \$ 1,491,757 | \$ 1,410,829 | \$ 1,377,629 |
| Contributions as a percentage of covered payroll | 0.00% | 0.00% | 0.00% | 0.00% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--------------|--------------|-------------|-------------|-------------|-------------|
| \$ - | \$ 10,960 | \$ 9,915 | \$ 8,695 | \$ 7,474 | \$ 6,850 |
| - | (10,960) | (9,915) | (8,695) | (7,474) | (6,850) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 1,275,586 | \$ 1,095,969 | \$ 991,500 | \$ 869,538 | \$ 747,408 | \$ 685,038 |
| 0.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changes in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%. There were no changes in benefit terms from the amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, 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, (g) mortality among disabled members 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 and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2018-2019.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero. There were no changes in benefit terms from amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2019.

(Continued)

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal years 2017-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) 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 the following: 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, (g) mortality among disabled members was updated to the following: 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, (h) the municipal bond index rate increased from 2.92% to 3.56% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 2.98% to 3.63%. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate increased from 3.63% to 3.70%, (b) the health care cost trend rate for Medicare were changed from a range of 5.50%-5.00% to a range of 5.375%-4.75% and Pre-Medicare were changed from a range of 7.50%-5.00% to a range of 7.25%-4.75%, (c) the municipal bond index rate increased from 3.56% to 3.62% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% 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. For fiscal year 2019, STRS increased the subsidy multiplier for non-Medicare benefit recipients from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) 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 and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and (b) decrease in trend rates from 6.00%-11.00 initial; 4.50% ultimate down to Medical Pre-Medicare 6.00% and Medicare 5.00% initial; 4.00% ultimate and Prescription Drug Pre-Medicare 8.00% and Medicare (5.23%) initial; 4.00% ultimate.



Julian & Grube, Inc.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Noble Academy - Columbus
Franklin County
1329 Bethel Road
Columbus, Ohio 43220

To the Board of Directors:

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 Noble Academy - Columbus, Franklin County, Ohio as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Noble Academy - Columbus' basic financial statements and have issued our report thereon dated December 18, 2019, wherein we noted the Noble Academy - Columbus experienced current liabilities exceeding current assets during the fiscal year ended June 30, 2019, as described in Note 17.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Noble Academy - Columbus' 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 Noble Academy - Columbus' 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 Noble Academy - Columbus' 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.

Compliance and Other Matters

As part of reasonably assuring whether the Noble Academy - Columbus' 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 Noble Academy - Columbus' internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Noble Academy - Columbus' internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
December 18, 2019

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OHIO AUDITOR OF STATE KEITH FABER



NOBLE ACADEMY COLUMBUS

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 25, 2020**