

**HORIZON SCIENCE ACADEMY DAYTON
MONTGOMERY COUNTY, OHIO**

(AUDITED)

BASIC FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2015*

RAMAZAN CELEP, TREASURER



Dave Yost • Auditor of State

Board of Directors
Horizon Science Academy Dayton
4751 Sue Ann Blvd
Dayton, Ohio 45415

We have reviewed the *Independent Auditor's Report* of the Horizon Science Academy Dayton, Montgomery County, prepared by Julian & Grube, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 Horizon Science Academy Dayton is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 28, 2016

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**HORIZON SCIENCE ACADEMY DAYTON
MONTGOMERY COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 7
Basic Financial Statements	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to the Basic Financial Statements.....	11 - 25
Required Supplementary Information:	
Schedule of the Academy’s Proportionate Share of the Net Pension Liability:	
School Employees Retirement System (SERS) of Ohio	28
State Teachers Retirement System (STRS) of Ohio	29
Schedule of Academy Contributions:	
School Employees Retirement System (SERS) of Ohio	30 - 31
State Teachers Retirement System (STRS) of Ohio	32 - 33
Notes to Required Supplementary Information	34
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	35 - 36

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Horizon Science Academy Dayton
Montgomery County
4751 Sue Ann Blvd.
Dayton, Ohio 45415

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Horizon Science Academy Dayton, Montgomery County, Ohio, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Horizon Science Academy Dayton'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 Horizon Science Academy Dayton's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Horizon Science Academy Dayton's internal control. Accordingly, we express no 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 overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy Dayton, Montgomery County, Ohio, as of June 30, 2015, 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 Matters

As discussed in Note 3 to the financial statements, during the fiscal year ended June 30, 2015, the Horizon Science Academy Dayton adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. We did not modify our opinion regarding this matter.

The accompanying basic financial statements have been prepared assuming that the Horizon Science Academy Dayton will continue as a going concern. As described in Note 19 to the basic financial statements, the Horizon Science Academy has current liabilities exceeding current assets, an operating loss, has suffered a declining net position in part due to expenses exceeding revenues and receiving a loan for operations, which raises substantial doubt about the Horizon Science Academy Dayton's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 19. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to 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*, schedule of the Academy's proportionate share of the net pension liability – School Employees Retirement System of Ohio and State Teachers Retirement System of Ohio, and schedule of Academy contributions – School Employees Retirement System of Ohio and State Teachers Retirement System of Ohio 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 3, 2015, on our consideration of the Horizon Science Academy Dayton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Horizon Science Academy Dayton's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 3, 2015

The discussion and analysis of Horizon Science Academy Dayton School's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2015. 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 2015 are as follows:

- Total assets were \$247,504.
- Total liabilities were \$1,585,211.
- Total net position decreased by \$70,065.

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 Change 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 liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net position – the difference between assets and liabilities, as reported in the Statement of Net Position – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position – as reported in the Statement of 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, supporting services, community services, and food 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, 2015 with net position as of June 30, 2014. Balances at June 30, 2014 have been restated as described in Note 3 to the basic financial statements

Table 1
Net Position

	2015	(Restated) 2014
Assets		
Current and Other Assets	\$31,752	\$59,799
Capital Assets	215,752	253,116
Total Assets	\$247,504	\$312,915
Deferred Outflows of Resources		
	118,515	80,948
Liabilities		
Current Liabilities	143,554	91,830
Long-term Liabilities	1,441,657	1,715,852
Total Liabilities	1,585,211	1,807,682
Deferred Inflows of Resources		
	264,692	0
Net Position		
Invested in Capital Assets	215,752	253,116
Unrestricted	(1,699,636)	(1,666,935)
Total Net Position	(\$1,483,884)	(\$1,413,819)

Total current assets decreased by \$28,047. This decrease is due to decreases in cash and cash equivalents of \$32,562. Capital assets decreased by \$37,364 due to current year depreciation exceeding additions. Total liabilities decreased \$222,471. This decrease is due mainly to decrease in net pension liability due to GASB 68 requirement and increases in note payable of \$25,000 and increases in accrued wages and benefits payable of \$18,851, respectively.

Table 2 shows the changes in net position for the fiscal years 2015 and 2014. Certain amounts for 2014 have been restated as described in Note 3 to the basic financial statements.

Table 2
Horizon Science Academy Dayton
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended June 30, 2015

	June 30, 2015	(Restated) June 30, 2014
OPERATING REVENUES:		
Foundation payments	\$1,330,411	\$1,253,567
Classroom fees	2,117	1,274
Extracurricular activities	5,880	376
Other revenue	24,736	6,192
Total operating revenues	1,363,144	1,261,409
OPERATING EXPENSES:		
Salaries	761,379	624,405
Fringe benefits	136,727	176,306
Purchased services	806,391	716,918
Materials and supplies	60,408	46,208
Depreciation	72,194	72,091
Miscellaneous	47,795	47,452
Total operating expenses	1,884,894	1,683,380
Operating loss	(521,750)	(421,971)
NON-OPERATING REVENUES:		
Restricted grants in aid - federal	319,814	288,367
State and other grants	30,115	24,961
Interest expense	0	(521)
Donated management fee	101,756	110,640
Total non-operating revenues	451,685	423,447
Change in net position	(70,065)	1,476
Net position (deficit), beginning of year restated	(1,413,819)	(1,415,295)
Net position (deficit), end of year	<u>(\$1,483,884)</u>	<u>(\$1,413,819)</u>

Foundation support and Federal grants increased \$76,844 and \$31,447, respectively, primarily due to an increase in enrollment. Salaries and benefits increased \$97,395 due to GASB 68 and purchased services increased \$89,473.

Foundation support is the primary support of the Academy, comprising 98% of operating revenue and 73% of total revenues. The Academy also received a significant portion of federal grants which represent 18% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 47% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 43%. Net position decreased \$70,065.

Pension Plan

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

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

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

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

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

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

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$221,085 to a balance of (\$1,413,819).

Pension Plan (Continued)

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 operating expenses still include pension expense of \$80,948 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$57,665.

Consequently, in order to compare 2015 total operating expenses to 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 68	\$1,884,894
Pension expense under GASB 68	(57,665)
2015 contractually required contributions	104,735
Adjusted 2015 operating expenses	1,931,964
Total 2014 operating expenses under GASB 27	1,683,380
Increase in operating expenses not related to pension	\$248,584

Capital Assets

At the end of fiscal year 2015 the Academy had \$421,021 invested in furniture and equipment, (\$215,752 net of accumulated depreciation). Table 3 shows fiscal year 2015 activity:

Table 3
Capital Assets

	Balance July 1, 2014	Additions	Deletions	Ending June 30, 2015
Equipment Instructional	\$248,417	\$30,609	(\$31,370)	\$247,656
Equipment Office	170,854	4,221	(\$1,710)	173,365
Total Capital Assets	419,271	34,830	(33,080)	421,021
Less: Accumulated Depreciation	(166,155)	(72,194)	33,080	(205,269)
Net Capital Assets	\$253,116	(\$37,364)	\$0	\$215,752

For more information on capital assets see Note 5 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 Ramazan Celep, Treasurer, Horizon Science Academy Dayton School, 4751 Sue Ann Blvd. Dayton, OH 45415.

Horizon Science Academy Dayton
Statement of Net Position
For the Fiscal Year Ended June 30, 2015

ASSETS:

Current Assets:

Cash and cash equivalents	\$11,367
Intergovernmental receivable	20,385
Total current assets	31,752

Noncurrent Assets:

Depreciable capital assets	215,752
Total Noncurrent Assets	215,752

Total Assets **\$247,504**

Deferred Outflows of Resources

Pension - SERS	7,230
Pension - STRS	111,285
Total Deferred Outflows of Resources	118,515

LIABILITIES:

Current Liabilities:

Accounts payable	29,465
Commercial Cards	2,777
Accrued wages and benefits payable	78,891
Payroll liabilities	7,421
Loan-Note payable - current	25,000
Total current liabilities	143,554

Long-Term Liabilities:

Net pension liability	1,441,657
Total long-term liabilities	1,441,657
Total Liabilities	1,585,211

Deferred inflows of resources:

Deferred inflows - SERS	14,449
Deferred inflows – STRS	250,243
Total deferred inflows of resources	264,692

NET POSITION (Deficit):

Investment in capital assets	215,752
Unrestricted	(1,699,636)
Total Net Position (Deficit)	\$(1,483,884)

See accompanying notes to the basic financial statements.

Horizon Science Academy Dayton
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended June 30, 2015

OPERATING REVENUES:	
Foundation payments	\$1,330,411
Classroom fees	2,117
Extracurricular activities	5,880
Other revenue	<u>24,736</u>
Total operating revenues	1,363,144
OPERATING EXPENSES:	
Salaries	761,379
Fringe benefits	136,727
Purchased services	806,391
Materials and supplies	60,408
Depreciation	72,194
Miscellaneous	<u>47,795</u>
Total operating expenses	1,884,894
Operating loss	(521,750)
NON-OPERATING REVENUES:	
Restricted grants in aid - federal	319,814
State and other grants	30,115
Donated management fee	<u>101,756</u>
Total non-operating revenues	451,685
Change in net position	(70,065)
Net position (deficit), beginning of year (restated)	<u>(1,413,819)</u>
Net position (deficit), end of year	<u>\$(1,483,884)</u>

See accompanying notes to the basic financial statements.

Horizon Science Academy Dayton
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	\$1,330,411
Cash received from other operating revenues	32,733
Cash payments to suppliers for goods and services	(860,829)
Cash payments to employees for services and benefits	(924,422)
Other cash payments	<u>(47,795)</u>
Net cash used for operating activities	(469,902)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	315,299
State and other grants received	30,115
Contributions and donations	<u>101,756</u>
Net cash provided by noncapital financing activities	447,170
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Notes payable issued	50,000
Principal paid on notes payable	(25,000)
Payment for capital acquisitions	<u>(34,830)</u>
Net cash used for capital and related financing activities	(9,830)
Net decrease in cash and cash equivalents	(32,562)
Cash and cash equivalents at beginning of year	<u>43,929</u>
Cash and cash equivalents at end of year	<u><u>\$11,367</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	(\$521,750)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Depreciation	72,194
Changes in Assets, Deferred Outflows, Liabilities and Deferred Inflows:	
Increase in payroll liabilities	1,903
Increase in accounts payable	3,193
Increase in commercial cards	2,777
Increase in accrued wages and benefits payable	18,851
(Increase) in deferred outflows - pensions	(37,567)
Decrease in net pension liability	(274,195)
Increase in deferred inflows - pensions	<u>264,692</u>
Total adjustments	<u>51,848</u>
Net cash used for operating activities	<u><u>(\$469,902)</u></u>
NONCASH TRANSACTIONS:	
Donated management fee	\$101,756

See accompanying notes to the basic financial statements.

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Horizon Science Academy Dayton, (the Academy), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through fifth in Dayton. 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 initially approved for operation under contract with the Educational Service Center of Lake Erie West (the Sponsor) for a period of five years commencing November 18, 2004. In May 2010, the contract was amended to extend automatically in one year terms unless terminated by any of the parties.

The Academy operates under the direction of a self-appointed five-member Board of Trustees. 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 2015, the Academy employed 22 personnel for up to 167 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) accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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 Change 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, 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 Change 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C. Budgetary Process**

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. Chapter 5705.391(A) of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

D. Cash

To improve cash management, all cash received by the Academy is pooled in a central bank account. Total cash amount 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 2015.

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 fair market values 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.

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>
Leasehold Improvements	5 to 10 years
Heavy Duty Office or Classroom Furniture	10 years
Computers and Other Electronic Equipment	3 years
Vehicles	3 to 10 years

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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, all employees who have worked for the Academy for a total of 210 days will be allowed up to nine days per year of paid sick or personal leave and those who have worked for the Academy for a total of 235 days will be allowed up to ten days per year 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, is not recorded as a liability. The Academy compensates its employees \$125 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. As of fiscal year ended June 30, 2015, the Academy had no restricted net position.

J. Estimates

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

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, deferred outflows of resources have been reported for the following two items related the Academy's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the Academy's contributions to the pension systems subsequent to the measurement date.

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, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the Academy's net pension liability.

L. Pensions

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

3. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For fiscal year 2015, the Academy has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the Academy's pension plan disclosures, as presented in Note 6, and added required supplementary information which is presented after the notes to the financial statements.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

Net Position as Previously Reported	\$221,085
Deferred Outflow-Payments Subsequent to Measurement Date	80,948
Net Pension Liability	<u>(1,715,852)</u>
Restated Net Position at July 1, 2014	<u>(\$1,413,819)</u>

Other than employer contributions subsequent to the measurement date, the Academy made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

4. DEPOSITS

As of June 30, 2015, the Academy's Fifth Third Operating bank balance of \$34,361, Fifth Third Bank Second bank balance of \$1,954 and Chase bank balance of \$493 was either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described below.

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The Academy has no policy regarding custodial credit risk.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

Capital Assets				
	Balance July 1, 2014	Additions	Deletions	Ending June 30, 2015
Equipment Instructional	\$248,417	\$30,609	(\$31,370)	\$247,656
Equipment Office	170,854	4,221	(\$1,710)	173,365
Total Capital Assets	419,271	34,830	(33,080)	421,021
Less: Accumulated Depreciation	(166,155)	(72,194)	33,080	(205,269)
Net Capital Assets	\$253,116	(\$37,364)	\$0	\$215,752

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.

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

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

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

6. DEFINED BENEFIT PENSION PLANS (Continued)**Plan Description – School Employees Retirement System (SERS)**

Plan Description – 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 on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$6,472 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

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

6. DEFINED BENEFIT PENSION PLANS (Continued)**Plan Description - State Teachers Retirement System (STRS) (Continued)**

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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 that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$98,263 for fiscal year 2015.

6. DEFINED BENEFIT PENSION PLANS (Continued)**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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities.

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

	<u>SERS</u>	<u>STRS</u>	<u>TOTAL</u>
Proportionate Share of the Net Pension Liability	\$89,022	\$1,352,635	\$1,441,657
Proportion of the Net Pension Liability	<u>0.00175900%</u>	<u>0.00556103%</u>	
Pension Expense	\$5,195	\$52,470	\$57,665

At June 30, 2015, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources	<u>SERS</u>	<u>STRS</u>	<u>TOTAL</u>
Differences between expected and actual experience	\$758	\$13,022	\$13,780
The Academy contributions subsequent to the measurement date	<u>6,472</u>	<u>98,263</u>	<u>104,735</u>
Total Deferred Outflows of Resources	<u>\$7,230</u>	<u>\$111,285</u>	<u>\$118,515</u>

Deferred Outflows of Resources

Net difference between projected and actual earnings on pension plan investments	<u>\$14,449</u>	<u>\$250,243</u>	<u>\$264,692</u>
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\$104,735 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, 2016. 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>Fiscal Year Ending June 30:</u>	<u>SERS</u>	<u>STRS</u>	<u>TOTAL</u>
2016	(\$3,422)	(\$59,305)	(\$62,727)
2017	(3,422)	(59,305)	(62,727)
2018	(3,422)	(59,305)	(62,727)
2019	(3,425)	(59,306)	(62,731)
Total	<u>(\$13,691)</u>	<u>(\$237,221)</u>	<u>(\$250,912)</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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

6. DEFINED BENEFIT PENSION PLANS (Continued)**Actuarial Assumptions - SERS (Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Decrease (8.75%)</u>
Academy's proportionate share of the net pension liability	\$127,008	\$89,022	\$57,073

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

6. DEFINED BENEFIT PENSION PLANS (Continued)**Actuarial Assumptions - STRS (Continued)**

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Decrease (8.75%)</u>
Academy's proportionate share of the net pension liability	\$1,936,444	\$1,352,635	\$858,929

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. 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. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of 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 basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Academy's surcharge obligation was \$814.

The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$1,311, \$2,413, and \$67, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$6,086, and \$5,806 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

8. LONG-TERM OBLIGATIONS

The Academy's long-term obligations during the year consist of the following:

	Restated Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due In One Year
Net Pension Liability					
STRS	\$1,611,250	\$0	(\$258,615)	\$1,352,635	\$0
SERS	104,602	\$0	(15,580)	89,022	\$0
Total Net Pension Liability	<u>\$1,715,852</u>	<u>\$0</u>	<u>(\$274,195)</u>	<u>\$1,441,657</u>	<u>\$0</u>

9. 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 2015, the Academy contracted with Great American 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 fiscal year 2015.

10. 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%.

11. PURCHASED SERVICES

Purchased service expenses during fiscal year 2015 were as follows:

Purchased Services	
Type	Amount
Professional Services	\$405,066
Rent and Property Services	371,729
Admin Travel	1,669
Advertising and Communications	14,275
Pupil Transportation	13,652
Total	<u>\$806,391</u>

12. NOTES PAYABLE

The following is a schedule of the note payable activity during fiscal year 2015:

	Note Payable			Balance on 6/30/2015
	Balance on 7/1/2014	Additions	Deletions	
HSA Columbus Elementary	\$0	\$50,000	\$25,000	\$25,000
Total	\$0	\$50,000	\$25,000	\$25,000

The Academy received \$50,000 in short term promissory notes from HSA Columbus Elementary School in fiscal year 2015. The Academy repaid \$25,000 of these notes and the balance of \$25,000 was still outstanding at the end of fiscal year 2015.

13. OPERATING LEASES

In August 2012, the Academy moved into its new location at 4751 Sue Ann Blvd. Dayton, OH 45415 signing a sublease contract with its sister school, Horizon Science Academy Dayton High School. The Academy will be sharing the gym and the cafeteria with the high school. According to the agreement the Academy is responsible for one third of the rent for the whole building. Horizon Science Academy Dayton High School is leasing the building from New Plan Learning until July 2041. New Plan Learning is an Ohio based non-profit organization that acquires and manages school facilities for Concept Schools. The Academy paid \$310,929 in fiscal year 2015.

14. CONTINGENCIES**A. 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 2015, the Academy received grants from State and Federal agencies total of \$349,929.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the first fiscal year 2015 review, the Academy is due \$10,035 from ODE. As a result of the second fiscal year review, the Academy owes ODE \$683.

15. SPONSORSHIP AGREEMENT

On November 18, 2004, the Academy signed a sponsorship agreement with Lucas County Educational Services. 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. In April 2010 the original contract was amended that it will automatically renew in one year terms unless it is terminated by any of the parties. According to the contract, the Academy pays 2% of its foundation revenues to the Sponsor. In fiscal year 2015, the schools compensation to the Sponsor was \$26,607. Effective January 1, 2012, Lucas County Educational Service Center changed their name to Educational Service Center of Lake Erie West.

16. 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. According to the contract, the Academy transfers 12% of the funds received from the State. In fiscal year 2015, the Academy paid \$59,703 to Concept Schools for management services, and the remaining fee balance of \$101,756 was forgiven by Concept Schools, and is reflected in the Statement of Revenues, Expenses and Change in Net Position as donated management fee.

17. 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.

18. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2015, the Academy implemented GASB Statement No. 69 "Government Combinations and Disposals of Government Operations".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Academy.

19. DEFICIT BALANCE

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) which contemplates continuation of the Academy as a going concern.

The Academy had current liabilities exceeding current assets at the end of fiscal year 2015. In addition, the Academy received a loan in fiscal year 2015 to assist with operating costs. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies.

REQUIRED SUPPLEMENTARY INFORMATION

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HORIZON SCIENCE ACADEMY - DAYTON

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

LAST TWO FISCAL YEARS

	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.00175900%	0.00175900%
Academy's proportionate share of the net pension liability	\$ 89,022	\$ 104,602
Academy's covered-employee payroll	\$ 51,111	\$ 44,747
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	233.76%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

HORIZON SCIENCE ACADEMY - DAYTON

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

LAST TWO FISCAL YEARS

	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.00556103%	0.00556103%
Academy's proportionate share of the net pension liability	\$ 1,352,635	\$ 1,611,250
Academy's covered-employee payroll	\$ 568,185	\$ 625,254
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	257.70%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

HORIZON SCIENCE ACADEMY - DAYTON

**SCHEDULE OF ACADEMY CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 6,472	\$ 7,084	\$ 6,193	\$ 4,620	\$ 4,641
Contributions in relation to the contractually required contribution	<u>(6,472)</u>	<u>(7,084)</u>	<u>(6,193)</u>	<u>(4,620)</u>	<u>(4,641)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 49,105	\$ 51,111	\$ 44,747	\$ 34,349	\$ 36,921
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 6,206	\$ 7,350	\$ 6,122	\$ 5,755	\$ 8,462
<u>(6,206)</u>	<u>(7,350)</u>	<u>(6,122)</u>	<u>(5,755)</u>	<u>(8,462)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 45,835	\$ 74,695	\$ 62,342	\$ 53,886	\$ 79,981
13.54%	9.84%	9.82%	10.68%	10.58%

HORIZON SCIENCE ACADEMY - DAYTON

**SCHEDULE OF ACADEMY CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 98,263	\$ 73,864	\$ 81,283	\$ 95,214	\$ 87,700
Contributions in relation to the contractually required contribution	<u>(98,263)</u>	<u>(73,864)</u>	<u>(81,283)</u>	<u>(95,214)</u>	<u>(87,700)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 701,879	\$ 568,185	\$ 625,254	\$ 732,415	\$ 674,615
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 89,270	\$ 101,544	\$ 77,440	\$ 111,288	\$ 92,117
<u>(89,270)</u>	<u>(101,544)</u>	<u>(77,440)</u>	<u>(111,288)</u>	<u>(92,117)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 686,692	\$ 781,108	\$ 595,692	\$ 856,062	\$ 708,592
13.00%	13.00%	13.00%	13.00%	13.00%

HORIZON SCIENCE ACADEMY - DAYTON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.



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*

Horizon Science Academy Dayton
Montgomery County
4751 Sue Ann Blvd.
Dayton, Ohio 45415

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 the Horizon Science Academy Dayton, Montgomery County, Ohio, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Horizon Science Academy Dayton's basic financial statements and have issued our report thereon dated December 3, 2015, wherein we noted as discussed in Note 3, the Horizon Science Academy Dayton adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. We also noted that the accompanying financial statements have been prepared assuming that the Horizon Science Academy Dayton will continue as a going concern.

Internal Control Over Financial Reporting

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

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

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

Board of Directors
Horizon Science Academy Dayton

Compliance and Other Matters

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Horizon Science Academy Dayton's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Horizon Science Academy Dayton's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 3, 2015



Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY DAYTON

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 11, 2016**