



Dave Yost • Auditor of State

**MOUND STREET MILITARY CAREERS ACADEMY
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Mound Street Military Careers Academy
Montgomery County
354 Mound Street
Dayton, Ohio 45402

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Mound Street Military Careers Academy, Montgomery County, Ohio (the Academy), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mound Street Military Careers Academy, Montgomery County, Ohio, as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2016, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". To the left of the signature, there are two small, vertically aligned marks that look like the letter "A".

Dave Yost
Auditor of State
Columbus, Ohio

June 13, 2016

**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

The management's discussion and analysis of Mound Street Military Careers Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total net position decreased \$226,472 in fiscal year 2015, which represents a 42.5 percent decrease from fiscal year 2014, as a result of cash disbursements exceeding cash receipts.
- Total assets decreased \$243,756 which represents a 13.0 percent decrease from the prior year. The decrease is primarily due to the decrease in equity in pooled cash and investments.
- The operating revenue for fiscal year 2015 in the amount of \$351,935 was \$147,526 less than the operating revenue reported for fiscal year 2014. This decrease is primarily due to a decrease in foundation payments received from the state.
- The non-operating revenue for fiscal year 2015 in the amount of \$201,855 was \$35,600 less than the non-operating revenue reported for fiscal year 2014. This decrease is primarily due to a decrease in state and federal grant revenue.

Using this Annual Financial Report

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

Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

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

The statement of revenues, expenses and changes in net position reports the changes in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

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

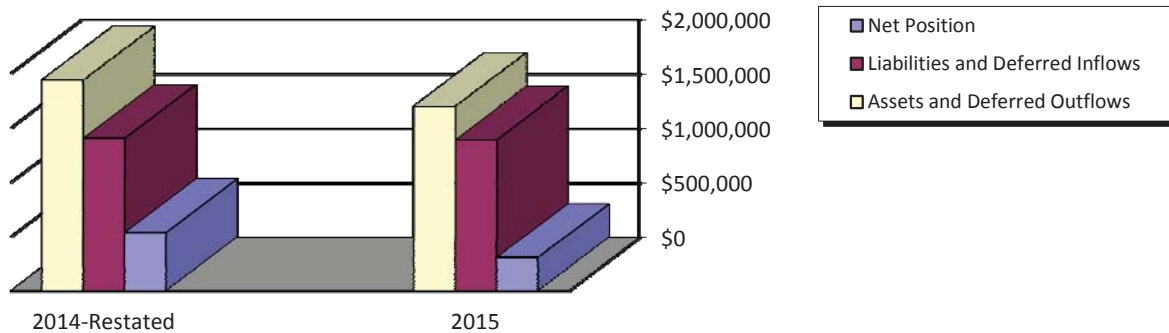
The Academy as a Whole

As stated previously, the statement of net position provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net position for 2015 compared to 2014.

**Table 1
Net Position**

| | <u>Governmental Activities</u> | |
|--------------------------------------|--------------------------------|----------------------|
| | <u>2015</u> | <u>2014-Restated</u> |
| Assets: | | |
| Current and Other Assets | \$1,471,692 | \$1,709,200 |
| Capital Assets | 158,333 | 164,581 |
| Total Assets | <u>1,630,025</u> | <u>1,873,781</u> |
| Deferred Outflows of Resources: | | |
| Pension | 63,076 | 60,314 |
| Total Deferred Outflows of Resources | <u>63,076</u> | <u>60,314</u> |
| Liabilities: | | |
| Other Liabilities | 79,122 | 59,289 |
| Long-Term Liabilities | 993,128 | 1,341,392 |
| Total Liabilities | <u>1,072,250</u> | <u>1,400,681</u> |
| Deferred Inflows of Resources: | | |
| Pension | 313,909 | 0 |
| Total Deferred Inflows of Resources | <u>313,909</u> | <u>0</u> |
| Net Position: | | |
| Net Investment in Capital Assets | 158,333 | 164,581 |
| Restricted | 480,893 | 1,568,081 |
| Unrestricted | <u>(332,284)</u> | <u>(1,199,248)</u> |
| Total Net Position | <u>\$306,942</u> | <u>\$533,414</u> |

**Mound Street Military Careers Academy
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**



During 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*.

**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

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 \$1,786,854 to \$533,414.

Total net position of the Academy decreased by \$226,472 or 42.5 percent. The decrease in total net position from fiscal year 2014 is primarily a result of cash disbursements exceeding cash receipts.

Table 2 shows the changes in net position for the fiscal years ended June 30, 2015 and 2014.

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**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

**Table 2
Changes in Net Position**

| | Change in Net Position | |
|--|------------------------|---------------|
| | 2015 | 2014-Restated |
| Operating Revenues: | | |
| State Foundation | \$332,803 | \$485,179 |
| Other Revenues | 19,132 | 14,282 |
| Total Operating Revenues | 351,935 | 499,461 |
| Operating Expenses: | | |
| Salaries | 422,659 | 396,657 |
| Fringe Benefits | 86,714 | 127,979 |
| Purchased Services | 202,595 | 220,827 |
| Materials and Supplies | 41,558 | 19,936 |
| Depreciation | 7,971 | 10,512 |
| Other Expenses | 18,765 | 11,711 |
| Total Operating Expenses | 780,262 | 787,622 |
| Operating Income (Loss) | (428,327) | (288,161) |
| Non-Operating Revenues (Expenses): | | |
| Investment Earnings | 1,925 | 1,984 |
| State and Federal Grants | 199,930 | 235,471 |
| Total Non-Operating Revenues (Expenses) | 201,855 | 237,455 |
| Change in Net Position | (226,472) | (50,706) |
| Net Position - Beginning of Year, Restated | 533,414 | N/A |
| Net Position - End of Year | \$306,942 | \$533,414 |

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 expenses still include pension expense of \$60,314 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 expenses of \$11,522. Consequently, in order to compare 2015 total expenses to 2014, the following adjustments are needed:

**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

| | |
|---|------------------------|
| Total 2015 program expenses under GASB 68 | \$780,262 |
| Pension expense under GASB 68 | (11,522) |
| 2015 contractually required contributions | 54,032 |
| Adjusted 2015 program expenses | <u>822,772</u> |
| Total 2014 program expenses under GASB 27 | <u>787,622</u> |
| Increase in program expenses not related to pension | <u><u>\$35,150</u></u> |

Foundation payments and state and federal grants decreased between fiscal years. Materials and supplies increased due to the increase in purchases of non-capitalized equipment and other assets. Salaries increased due to an increase in support personnel.

Capital Assets

At June 30, 2015, the capital assets of the Academy consisted of land in the amount of \$6,515, the building and improvements in the amount of \$179,667 off-set by \$46,113 in accumulated depreciation, furniture and equipment amounting to \$66,517 with accumulated depreciation of \$48,389, and vehicles in the amount of \$7,435 with accumulated depreciation of \$7,299 resulting in net capital assets of \$158,333. Depreciation expense for the fiscal year ended June 30, 2015 amounted to \$7,971.

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

Debt

At June 30, 2015, the Academy did not have any outstanding debt obligations. For information regarding other long-term obligations, please see Note 9 of the notes to the basic financial statements.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of Mound Street Military Careers Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Mound Street Military Careers Academy Attn: Treasurer 354 Mound Street Dayton, Ohio 45402, (937) 223-3041.

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Mound Street Military Careers Academy
Statement of Net Position
June 30, 2015

| | |
|---------------------------------------|-------------------------|
| Assets: | |
| Current Assets: | |
| Equity in Pooled Cash and Investments | \$1,467,039 |
| Receivables: | |
| Accounts | 4,526 |
| Intergovernmental | <u>127</u> |
| Total Current Assets | <u>1,471,692</u> |
| Noncurrent Assets: | |
| Nondepreciable Capital Assets | 6,515 |
| Depreciable Capital Assets, Net | <u>151,818</u> |
| Total Noncurrent Assets | <u>158,333</u> |
| Total Assets | <u>1,630,025</u> |
| Deferred Outflows of Resources: | |
| Pension | <u>63,076</u> |
| Total Deferred Outflows of Resources | <u>63,076</u> |
| Liabilities: | |
| Current Liabilities: | |
| Accounts Payable | 18,538 |
| Accrued Wages and Benefits | 57,526 |
| Intergovernmental payable | <u>3,058</u> |
| Total Current Liabilities | <u>79,122</u> |
| Long-Term Liabilities: | |
| Compensated Absences | 33,031 |
| Net Pension Liability | <u>960,097</u> |
| Total Long-Term Liabilities | <u>993,128</u> |
| Total Liabilities | <u>1,072,250</u> |
| Deferred Inflows of Resources: | |
| Pension | <u>313,909</u> |
| Total Deferred Inflows of Resources | <u>313,909</u> |
| Net Position: | |
| Net Investment in Capital Assets | 158,333 |
| Restricted | 480,893 |
| Unrestricted | <u>(332,284)</u> |
| Total Net Position | <u><u>\$306,942</u></u> |

See accompanying notes to the basic financial statements.

Mound Street Military Careers Academy
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

| | |
|--|-------------------------|
| Operating Revenues: | |
| Foundation Payments | \$332,803 |
| Other Revenues | <u>19,132</u> |
| Total Operating Revenues | <u>351,935</u> |
| Operating Expenses: | |
| Salaries | 422,659 |
| Fringe Benefits | 86,714 |
| Purchased Services | 202,595 |
| Materials and Supplies | 41,558 |
| Depreciation | 7,971 |
| Other | <u>18,765</u> |
| Total Operating Expenses | <u>780,262</u> |
| Operating Income (Loss) | <u>(428,327)</u> |
| Non-Operating Revenues (Expenses): | |
| Investment Earnings | 1,925 |
| State and Federal Grants | <u>199,930</u> |
| Total Non-Operating Revenues (Expenses) | <u>201,855</u> |
| Change in Net Position | (226,472) |
| Net Position - Beginning of Year, Restated | <u>533,414</u> |
| Net Position - End of Year | <u><u>\$306,942</u></u> |

See accompanying notes to the basic financial statements.

Mound Street Military Careers Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

| | |
|---|-------------|
| Cash Flows from Operating Activities: | |
| Cash Received from State Foundation | \$335,861 |
| Other Operating Cash Receipts | 18,171 |
| Cash Payments to Employees for Salaries and Benefits | (540,172) |
| Cash Payments for Materials, Supplies and Other Services | (233,475) |
| Cash Payments for Other Expenses | (15,620) |
| Net Cash Provided (Used) by Operating Activities | (435,235) |
| Cash Flows from Noncapital Financing Activities: | |
| Cash Received from State and Federal Grants | 229,388 |
| Net Cash Provided (Used) by Noncapital Financing Activities | 229,388 |
| Cash Flows from Capital and Related Financing Activities: | |
| Payments for Capital Acquisitions | (3,820) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (3,820) |
| Cash Flows from Investing Activities: | |
| Earnings on Investments | 1,925 |
| Net Cash Provided (Used) by Cash Flows from Investing Activities | 1,925 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (207,742) |
| Cash and Cash Equivalents - Beginning of Year | 1,674,781 |
| Cash and Cash Equivalents - End of Year | 1,467,039 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | (428,327) |
| Adjustments: | |
| Depreciation | 7,971 |
| Changes in Assets and Deferred Outflows & Liabilities and Deferred Inflows: | |
| (Increase) Decrease in Receivables | 305 |
| (Increase) Decrease in Deferred Outflows of Resources | (2,762) |
| Increase (Decrease) in Accrued Liabilities | 13,803 |
| Increase (Decrease) in Payables | 11,423 |
| Increase (Decrease) in Deferred Inflows of Resources | 313,909 |
| Increase (Decrease) in Net Pension Liability | (351,557) |
| Net Cash Provided (Used) by Operating Activities | (\$435,235) |

See accompanying notes to the basic financial statements.

**Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Note 1 – Description of the Academy and Reporting Entity

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

The Academy was approved for operation under contract with the Montgomery County Educational Service Center (Sponsor) for the period of July 1, 2007 through June 30, 2014 and which was extended through June 30, 2015 during March, 2014. The Academy operates under a self-appointing seven-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility staffed by one superintendent, one principal, 12 certified teaching personnel, 7 non-certified support personnel and 1 academic coach who provide services to an enrollment of 47.93 full time equivalent students.

Note 2 – Summary of Significant Accounting Policies

The 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.

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

**Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

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

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

Budgetary process

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

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

Equity in Pooled Cash and Investments

All monies received by the Academy are maintained in demand deposit accounts, a savings account, and investments. For internal accounting purposes, the Academy segregates its cash using fund accounting.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

During fiscal year 2015, the Academy investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (StarOhio). StarOhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. StarOhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in StarOhio are valued at StarOhio's share price, which is the price the investment could be sold for on June 30, 2015.

Following Ohio statutes, the Board of Trustees has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2015 amounted to \$1,925.

Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of \$1,000. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed. Depreciation is computed using the straight-line method over estimated useful lives as follows: building and improvements - 30 to 50 years, furniture and equipment - 4 to 20 years, and vehicles - 6 to 8 years.

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and various grants awarded through state and federal programs. These programs include Title I, Title II-A, Race to the Top and Part B-IDEA. The State Foundation Program and certain other state grants are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Most other federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Revenues under state and federal grant or entitlement programs for the 2015 school year totaled \$532,733.

Accrued Liabilities Payable

The Academy has recognized certain liabilities on its statement of Net Position relating to expenses, which are due but unpaid as of June 30, 2015 including:

Accrued wages and benefits payable – payments for salary, health benefits, SERS and STRS contributions, Medicare deductions, SERS' surcharge and workers' compensation made after year-end for services rendered in fiscal year 2015. Teaching personnel are paid in 26 equal installments, ending with the first payroll in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2015 for the salary payments made to personnel after June 30, 2015 related to fiscal year 2015. A liability has also been recognized for health care payments made after year end for payroll services earned as of June 30, 2015.

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.

Compensated Absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Academy has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Academy's termination policy. The Academy records a liability for accumulated unused sick leave for all employees after 10 years of current service with the Academy.

The entire compensated absences liability is reported on the basic financial statements.

The Academy does not record a liability for personal and vacation leave because its policy is not to pay out accumulated personal and vacation leave balances upon termination of employment.

**Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

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 consist of capital assets net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

As of June 30, 2015, of the Academy's \$480,893 in restricted net position, none was restricted by enabling legislation.

Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the Academy's primary mission as well as other charges for services and other operating revenues. For the Academy, operating revenues include foundation payments received from the State of Ohio as well as other operating revenues. Operating expenses are necessary costs incurred to support the Academy's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various state and federal grants, as well as interest revenue, comprise the non-operating revenues of the Academy. The Academy reported no non-operating expenses for fiscal year 2015.

Federal Tax Exemption Status

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

Estimates

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

Note 3 – Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of 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 percent of the total value of public monies on deposit at the institution. The Academy's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

**Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

As of June 30, 2015, \$752,213 of the Academy's bank balance of \$1,168,037 is covered by FDIC. \$415,824 is collateralized by the financial institutions' public entity deposit pools in the manner described above.

Investments

Investments are reported at fair value. As of June 30, 2015, the Academy had the following investment:

| | Fair Value | Weighted Average Maturity (Yrs.) |
|----------|-------------------|-------------------------------------|
| StarOhio | <u>\$ 300,884</u> | <u>Less than 1 year</u> |

The Academy's investment policy permits the purchase of any security specifically authorized by the Ohio Revised Code.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Academy will not directly invest in securities maturing more than five years from the date of purchase. The Academy's investment policy does not address this risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments in StarOhio were rated AAAM by Standard & Poor's. The Academy's policy does not address credit risk for investments.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Academy has invested 100 percent in StarOhio with a weighted average maturity of less than one year. The Academy's investment policy does not address this risk.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Academy's investments are either insured and registered in the name of the Academy or at least registered in the name of the Academy. The Academy does not have a policy for custodial credit risk.

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Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 4 – Capital Assets

A summary of the Academy's capital assets at June 30, 2015, follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$6,515 | \$0 | \$0 | \$6,515 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings and Improvements | 183,161 | 0 | 3,494 | 179,667 |
| Furniture and Equipment | 107,300 | 3,820 | 44,603 | 66,517 |
| Vehicles | 7,435 | 0 | 0 | 7,435 |
| | <u>304,411</u> | <u>3,820</u> | <u>48,097</u> | <u>260,134</u> |
| Totals at Historical Cost | | | | |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 42,843 | 4,667 | 1,397 | 46,113 |
| Furniture and Equipment | 90,499 | 2,493 | 44,603 | 48,389 |
| Vehicles | 6,488 | 811 | 0 | 7,299 |
| | <u>139,830</u> | <u>7,971</u> | <u>46,000</u> | <u>101,801</u> |
| Total Accumulated Depreciation | | | | |
| Capital Assets, Net | <u>\$164,581</u> | <u>(\$4,151)</u> | <u>\$2,097</u> | <u>\$158,333</u> |

Note 5 – Risk Management

Property and liability – The Academy is exposed to various risks of loss related to torts; theft of or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Academy contracted with Cincinnati Insurance Company for business personal property, director and officer liability, auto, and general liability insurance. Auto coverage for comprehensive and collision has a \$1,000,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of \$4,000,000 per occurrence, as well as, in the aggregate.

There has been no reduction in coverage from the prior year and settled claims have not exceeded the Academy's coverage in any of the past three years.

Employee insurance benefits – The Academy offers health and dental insurance benefits to employees of whom the Academy pays 80 percent and the employee pays 20 percent of the premiums. The Academy also offers life insurance to its employees of which it pays 100 percent of the premiums. Health and life insurance benefits are administered by Anthem. Dental insurance benefits are administered by Superior. The Academy also adopted a Health Savings Account Lumenos Option 3 medical plan.

Note 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 accrued wages and benefits on the accrual basis of accounting.

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.

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 \$16,292 for fiscal year 2015. Of this amount \$1,575 is reported as accrued wages and benefits.

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.

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

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 \$37,740 for fiscal year 2015. Of this amount \$6,702 is reported as accrued wages and benefits.

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 | \$178,601 | \$781,496 | \$960,097 |
| Proportion of the Net Pension Liability | 0.00352900% | 0.00321293% | |
| Pension Expense | 10,503 | 1,019 | 11,522 |

At June 30, 2015, 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 | \$1,520 | \$7,524 | \$9,044 |
| Academy contributions subsequent to the measurement date | <u>16,292</u> | <u>37,740</u> | <u>54,032</u> |
| Total Deferred Outflows of Resources | <u>\$17,812</u> | <u>\$45,264</u> | <u>\$63,076</u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$28,987 | \$144,580 | \$173,567 |
| Changes in Proportion Share | <u>0</u> | <u>140,342</u> | <u>140,342</u> |
| Total Deferred Inflows of Resources | <u>\$28,987</u> | <u>\$284,922</u> | <u>\$313,909</u> |

\$54,032 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:

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|-------------------|--------------------|--------------------|
| Fiscal Year Ending June 30: | | | |
| 2016 | (\$6,866) | (\$69,349) | (\$76,215) |
| 2017 | (6,867) | (69,349) | (76,216) |
| 2018 | (6,867) | (69,349) | (76,216) |
| 2019 | <u>(6,867)</u> | <u>(69,351)</u> | <u>(76,218)</u> |
| Total | <u>(\$27,467)</u> | <u>(\$277,398)</u> | <u>(\$304,865)</u> |

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.

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|-------------------|--|
| Cash | 1.00 % | 0.00 % |
| 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 | 100.00 % | |

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.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net pension liability | \$254,810 | \$178,601 | \$114,502 |

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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. |

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:

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

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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:

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net pension liability | \$1,118,796 | \$781,496 | \$496,253 |

Note 7 - Post Employment Benefits

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 \$1,793.

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$2,747, \$186, and \$179, respectively. For fiscal year 2015, 90 percent has been contributed, with the balance being reported as accrued wages and benefits. The full amount has been contributed for fiscal years 2014 and 2013.

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 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, \$3,189, and \$3,903 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

Note 8 – Contingencies

Foundation Funding

Academy Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, community schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2015, if applicable, cannot be determined at this time.

**Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

Litigation

The Academy is currently not party to any legal proceedings.

Note 9 – Long-Term Obligations

Changes in long-term obligations of the Academy during fiscal year 2015 were as follows:

| | Balance Outstanding June 30, 2014 | Additions | Deletions | Balance Outstanding June 30, 2015 | Amount Due in One Year |
|-----------------------------|---|----------------|------------------|---|------------------------------|
| Net Pension Liability: | | | | | |
| STRS | \$1,103,833 | \$0 | \$322,337 | \$781,496 | \$0 |
| SERS | 209,921 | 0 | 31,320 | 178,601 | 0 |
| Total Net Pension Liability | 1,313,754 | 0 | 353,657 | 960,097 | 0 |
| Compensated Absences | 27,638 | 5,393 | 0 | 33,031 | 0 |
| Total Long-Term Liabilities | <u>\$1,341,392</u> | <u>\$5,393</u> | <u>\$353,657</u> | <u>\$993,128</u> | <u>\$0</u> |

Note 10 – Related Parties

The Superintendent and Treasurer of Mound Street Military Careers Academy serve in the same capacity for Mound Street Health Careers Academy and Mound Street IT Careers Academy. All of the Board of Trustees serve on all three Academy Boards. Transactions between the three Academies are insignificant.

Note 11 – Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association

The Academy is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the General Fund. The Academy paid MDECA \$4,276 for services provided during the fiscal year 2015. Financial information can be obtained from Dean Reineke, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12 – Other Purchased Services

During the fiscal year ended June 30, 2015, other purchased service expenses for services rendered by various vendors were as follows:

| | |
|------------------------------------|------------------|
| Professional & Technical Services | \$73,439 |
| Property Services | 33,910 |
| Travel Mileage/Meeting Expense | 1,832 |
| Communications | 3,955 |
| Utilities Services | 17,720 |
| Contracted Craft or Trade Services | 63,491 |
| Tuition | 265 |
| Pupil Transportation Services | 7,983 |
| Total Other Purchased Services | <u>\$202,595</u> |

Note 13 – Receivables

At June 30, 2015, the Academy had accounts and intergovernmental receivables of \$4,526 and \$127, respectively, which are considered collectible within one year and are presented on the statement of Net Position.

Note 14 – Change in Accounting Principles

The Academy adopted the provisions of GASB Statement Number 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27 and GASB Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement Number 68. GASB Statement Number 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 and have been implemented by the Academy. GASB Statement Number 71 amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources of its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

Note 15 – Change in Accounting Principle and Restatement of Net Position

For fiscal year 2015, the Academy implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The

**Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

| | |
|--|-------------------------|
| Net position June 30, 2014 | \$1,786,854 |
| Adjustments: | |
| Net Pension Liability | (1,313,754) |
| Deferred Outflow - Payments Subsequent to Measurement Date | <u>60,314</u> |
| Restated Net Position June 30, 2014 | <u><u>\$533,414</u></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.

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REQUIRED SUPPLEMENTARY INFORMATION

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share
 of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Two Fiscal Years (1)

| | 2014 | 2013 |
|--|-------------|-------------|
| Academy's Proportion of the Net Pension Liability | 0.00321293% | 0.00321293% |
| Academy's Proportionate Share of the Net Pension Liability | \$781,496 | \$1,103,833 |
| Academy's Covered-Employee Payroll | \$353,523 | \$420,323 |
| Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 221.06% | 262.62% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.70% | 69.30% |

(1) - Information prior to 2013 is not available

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share
 of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Two Fiscal Years (1)

| | 2014 | 2013 |
|--|-----------|-----------|
| Academy's Proportion of the Net Pension Liability | 0.003529% | 0.003529% |
| Academy's Proportionate Share of the Net Pension Liability | \$178,601 | \$209,921 |
| Academy's Covered-Employee Payroll | \$103,579 | \$113,266 |
| Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 172.43% | 185.33% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 71.70% | 65.52% |

(1) - Information prior to 2013 is not available

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of Academy Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Contractually Required Contribution | \$37,740 | \$45,958 | \$54,642 | \$56,118 | \$54,733 |
| Contributions in Relation to the Contractually Required Contribution | <u>(37,740)</u> | <u>(45,958)</u> | <u>(54,642)</u> | <u>(56,118)</u> | <u>(54,733)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Academy Covered-Employee Payroll | \$269,571 | \$353,523 | \$420,323 | \$431,677 | \$421,023 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.00% | 13.00% | 13.00% | 13.00% |

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| 2010 | 2009 | 2008 | 2007 | 2006 |
|-----------|-----------|-----------|-----------|-----------|
| \$53,397 | \$48,798 | \$50,436 | \$59,196 | \$61,008 |
| (53,397) | (48,798) | (50,436) | (59,196) | (61,008) |
| \$0 | \$0 | \$0 | \$0 | \$0 |
| \$410,746 | \$375,369 | \$387,969 | \$455,354 | \$469,292 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of Academy Contributions
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|-----------|-----------|-----------|----------|----------|
| Contractually Required Contribution | \$16,292 | \$14,356 | \$15,676 | \$8,460 | \$12,012 |
| Contributions in Relation to the Contractually Required Contribution | (16,292) | (14,356) | (15,676) | (8,460) | (12,012) |
| Contribution Deficiency (Excess) | \$0 | \$0 | \$0 | \$0 | \$0 |
| Academy Covered-Employee Payroll | \$123,612 | \$103,579 | \$113,266 | \$62,900 | \$95,561 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.18% | 13.86% | 13.84% | 13.45% | 12.57% |

| 2010 | 2009 | 2008 | 2007 | 2006 |
|----------|-----------|-----------|----------|----------|
| \$11,469 | \$11,442 | \$11,046 | \$8,112 | \$6,690 |
| (11,469) | (11,442) | (11,046) | (8,112) | (6,690) |
| \$0 | \$0 | \$0 | \$0 | \$0 |
| \$84,705 | \$116,280 | \$112,485 | \$75,955 | \$63,233 |
| 13.54% | 9.84% | 9.82% | 10.68% | 10.58% |



Dave Yost • Auditor of State

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

Mound Street Military Careers Academy
Montgomery County
354 Mound Street
Dayton, Ohio 45402

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Mound Street Military Careers Academy, Montgomery County, (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated June 13, 2016, wherein we noted the Academy adopted provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

June 13, 2016

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MOUND STREET MILITARY CAREERS ACADEMY

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
JULY 12, 2016**