

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY, OHIO**

(AUDITED)

BASIC FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2016*

MICHAEL ASHMORE, TREASURER



Dave Yost • Auditor of State

Board of Governors
Hamilton County Mathematics and Science Academy
2675 Civic Center Drive
Cincinnati, Ohio 45231

We have reviewed the *Independent Auditor's Report* of the Hamilton County Mathematics and Science Academy, Hamilton County, prepared by Julian & Grube, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 Hamilton County Mathematics and Science Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

May 8, 2017

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**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Hamilton County Mathematics and Science Academy
Hamilton County
2675 Civic Center Drive
Cincinnati, Ohio 45231

To the Board of Governors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Hamilton County Mathematics and Science Academy, Hamilton County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hamilton County Mathematics and Science 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 Hamilton County Mathematics and Science 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 Hamilton County Mathematics and Science 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 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 Hamilton County Mathematics and Science Academy, Hamilton County as of June 30, 2016, 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.

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 February 16, 2017, on our consideration of the Hamilton County Mathematics and Science 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 Hamilton County Mathematics and Science Academy's internal control over financial reporting and compliance.



Julian & Grube, Inc.
February 16, 2017

Hamilton County Mathematics and Science Academy

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)*

The discussion and analysis of Hamilton County Mathematics and Science Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2016. 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 statement and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- Total net position increased \$4,034 during fiscal year 2016, which represents a 0% increase from the prior year.
- Total assets increased \$132,863, which represents a 6% increase from the prior year.
- Total liabilities increased \$1,596,606, which represents a 26% increase from the prior year.
- The Academy reported an operating loss of \$417,744 for fiscal year 2016. There was an increase in operating revenues of \$371,458 and an increase in operating expenses of \$462,336.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the management's discussion and analysis and the notes to the basic financial statements. The basic financial statements include a statement of net position, a 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 fund presentation information is the same.

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

The view of the Academy as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position and the statement of revenue, expenses and changes in net position answer this question. These statements include all assets, liabilities, deferred inflows/outflows of resources, revenues, and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in net position. This change in net position is important because it tells the reader whether, for the Academy as a whole, the financial position has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 1 provides a summary of the Academy's net position at June 30, 2016 as compared to June 30, 2015.

Hamilton County Mathematics and Science Academy

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

(Unaudited)

Table 1
Net Position

	2016	2015
<i>Assets</i>		
Current and Other Assets	\$371,107	\$192,498
Capital Assets, Net	2,000,069	2,045,815
Total Assets	2,371,176	2,238,313
<i>Deferred Outflows of Resources</i>	1,314,454	390,148
<i>Liabilities</i>		
Current Liabilities	533,961	359,818
Long-Term Liabilities	7,168,419	5,745,956
Total Liabilities	7,702,380	6,105,774
<i>Deferred Inflows of Resources</i>	296,638	840,109
<i>Net Position</i>		
Net Investment in Capital Assets	813,753	820,874
Restricted	117,829	144,571
Unrestricted (Deficit)	(5,244,970)	(5,282,867)
Total Net Position	(\$4,313,388)	(\$4,317,422)

Total assets increased by \$132,863. This decrease was primarily due to increases in cash and cash equivalents and intergovernmental receivables of \$81,478 and \$97,131, respectively. Deferred outflows of resources increased \$924,306 due to an increase between years for payments made subsequent to the measurement dates of the net pension liability and other actuarially determined amounts. Total liabilities increased \$1,596,606 primarily due to an increase in net pension liability estimates, which was partially offset by principal payments on debt balances. Deferred inflows of resources decreased by \$543,471 due to a decrease in actuarially determined amounts.

Table 2 shows the changes in net position for fiscal years 2016 and 2015.

Table 2
Change in Net Position

	2016	2015
<i>Operating Revenues</i>		
Foundation Payments	\$4,155,968	\$3,824,644
Charges for Services	20,781	12,650
Other Operating Revenues	136,145	104,142
Total Operating Revenues	4,312,894	3,941,436

Hamilton County Mathematics and Science Academy

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)*

Table 2
Change in Net Position
(Continued)

	2016	2015
<i>Operating Expenses</i>		
Salaries	\$2,393,820	\$2,321,548
Fringe Benefits	788,875	547,748
Purchased Services	952,950	816,018
Materials and Supplies	358,773	350,748
Depreciation	107,224	92,525
Other Operating Expenses	128,996	139,715
Total Operating Expenses	4,730,638	4,268,302
<i>Operating Loss</i>	(417,744)	(326,866)
<i>Nonoperating Revenues (Expenses)</i>		
Interest Revenue	38	42
Intergovernmental	486,468	594,194
Interest Expense	(53,303)	(89,857)
Issuance Costs	(11,425)	0
Net Nonoperating Revenues (Expenses)	421,778	504,379
<i>Change in Net Position</i>	4,034	177,513
<i>Net Position, Beginning of Year</i>	(4,317,422)	(4,494,935)
<i>Net Position, End of Year</i>	(\$4,313,388)	(\$4,317,422)

Operating revenues increased \$371,458 or 9% from the prior fiscal year. The increase was primarily the result of an increase in foundation payment revenues from the prior year due to increased FTE enrollment from the prior fiscal year. Total operating expenses increased \$462,336 or 11% from the prior fiscal year. The increase in expenses was due to the Academy's additional services required due to the increase in student enrollment. Nonoperating revenues from intergovernmental grants decreased \$107,726 from the prior fiscal year due to decreased awards of federal grants from the State.

Capital Assets

At the end of fiscal year 2016, the Academy had \$2,000,069 invested in land, a building, building improvements, and equipment, which represented a decrease of \$45,746 from the prior fiscal year. Table 3 shows capital assets, net of accumulated depreciation at June 30, 2016 as compared to June 30, 2015:

Table 3
Capital Assets at June 30,
(Net of Accumulated Depreciation)

	2016	2015
Land	\$180,000	\$180,000
Building	1,361,555	1,397,348
Building Improvements	363,229	352,040
Equipment	95,285	116,427
Total	\$2,000,069	\$2,045,815

Hamilton County Mathematics and Science Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

For more information on capital assets, see note 4 of the notes to the basic financial statements.

Debt

At June 30, 2016, the Academy had \$1,186,316 in debt outstanding, of which \$59,837 is due within one year. Table 4 summarizes outstanding debt.

Table 4
 Outstanding Debt at June 30,

	2016	2015
Mortgage Loan Payable	\$0	\$1,224,941
Commercial Note Payable	0	24,997
Mortgage Promissory Note Payable	1,186,316	0
Total	\$1,186,316	\$1,249,938

For more information on debt, see note 10 of the notes to the basic financial statements.

Contacting the Academy's Financial Management

This financial report is designed to provide a general overview of the Hamilton County Mathematics and Science Academy finances and to show the Academy's accountability for the money 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 request for additional financial information should be directed to Hamilton County Mathematics and Science Academy, 2675 Civic Center Drive, Cincinnati, Ohio 45231.

Hamilton County Mathematics and Science Academy
Statement of Net Position
June 30, 2016

Assets	
<i>Current Assets</i>	
Cash and Cash Equivalents	\$108,050
Intergovernmental Receivable	<u>263,057</u>
Total Current Assets	371,107
<i>Noncurrent Assets</i>	
Nondepreciable Capital Assets	180,000
Depreciable Capital Assets, Net	<u>1,820,069</u>
Total Noncurrent Assets	<u>2,000,069</u>
<i>Total Assets</i>	2,371,176
Deferred Outflows of Resources	
Pension	1,314,454
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	175,717
Accrued Wages Payable	253,127
Intergovernmental Payable	45,280
Mortgage Payable	<u>59,837</u>
<i>Total Current Liabilities</i>	533,961
<i>Noncurrent Liabilities</i>	
Mortgage Payable, Net of Current Portion	1,126,479
Net Pension Liability	<u>6,041,940</u>
<i>Total Noncurrent Liabilities</i>	<u>7,168,419</u>
<i>Total Liabilities</i>	7,702,380
Deferred Inflows of Resources	
Pension	296,638
Net Position	
Net Investment in Capital Assets	813,753
Restricted For:	
Other Purposes	117,829
Unrestricted (Deficit)	<u>(5,244,970)</u>
<i>Total Net Position</i>	<u><u>(\$4,313,388)</u></u>

See the accompanying notes to the basic financial statements.

Hamilton County Mathematics and Science Academy
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Operating Revenues	
Foundation Payments	\$4,155,968
Charges for Services	20,781
Other Operating Revenues	<u>136,145</u>
<i>Total Operating Revenues</i>	4,312,894
Operating Expenses	
Salaries	2,393,820
Fringe Benefits	788,875
Purchased Services	952,950
Materials and Supplies	358,773
Depreciation	107,224
Other Operating Expenses	<u>128,996</u>
<i>Total Operating Expenses</i>	<u>4,730,638</u>
<i>Operating Loss</i>	(417,744)
Nonoperating Revenues (Expenses)	
Interest Revenue	38
Intergovernmental	486,468
Interest Expense	(53,303)
Issuance Costs	<u>(11,425)</u>
<i>Net Nonoperating Revenues (Expenses)</i>	<u>421,778</u>
<i>Change in Net Position</i>	4,034
<i>Net Position, Beginning of Year</i>	<u>(4,317,422)</u>
<i>Net Position, End of Year</i>	<u><u>(\$4,313,388)</u></u>

See the accompanying notes to the basic financial statements.

Hamilton County Mathematics and Science Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Change in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State Foundation	\$4,209,767
Cash Received from Charges for Services	20,781
Cash Received from Other Operating Revenues	136,145
Cash Payments for Personal Services	(3,137,882)
Cash Payments for Purchased Services	(851,626)
Cash Payments for Materials and Supplies	(317,764)
Cash Payments for Other Expenses	<u>(128,996)</u>
<i>Net Cash Used for Operating Activities</i>	<i>(69,575)</i>

Cash Flows from Noncapital Financing Activities

Cash Received from Grants	<u>335,538</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>335,538</u>

Cash Flows from Capital and Related Financing Activities

Acquisition of Capital Assets	(56,173)
Proceeds from Mortgage Payable	1,220,000
Principal Paid on Debt Obligations	(1,283,622)
Interest Paid on Debt Obligations	(53,303)
Issuance Costs Paid on Debt Obligations	<u>(11,425)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(184,523)</u>

Cash Flows from Investing Activities

Interest	<u>38</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>38</u>

Net Change in Cash and Cash Equivalents

	81,478
<i>Cash and Cash Equivalents, Beginning of Year</i>	<u>26,572</u>
<i>Cash and Cash Equivalents, End of Year</i>	<u><u>\$108,050</u></u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	(\$417,744)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	107,224
Change in Liabilities and Deferred Inflows/Outflows of Resources:	
Decrease in Intergovernmental Receivable	53,799
Increase in Deferred Outflows of Resources	(924,306)
Increase in Accounts Payable	142,333
Increase in Accrued Wages and Benefits Payable	18,525
Increase in Intergovernmental Payable	11,513
Increase in Net Pension Liability	1,482,552
Decrease in Deferred Inflows of Resources	<u>(543,471)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$69,575)</u></u>

Noncash Transactions

Capital Acquisitions Attributed to Accounts Payable	<u>\$5,305</u>
Total Noncash Transactions	<u><u>\$5,305</u></u>

See the accompanying notes to the basic financial statements.

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Note 1 – Description of the Reporting Entity

Hamilton County Mathematics and Science Academy, Hamilton County, Ohio (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through grade eight. 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 Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001. However, the Ohio State Board of Education subsequently decided to suspend its sponsorship of community schools and the Academy obtained Lucas County Educational Service Center as its sponsor for the school year beginning July 1, 2005. Lucas County Educational Service Center was replaced by Educational Resource Consultants of Ohio Inc. as the Academy's sponsor in January 2006. Educational Resource Consultants of Ohio Inc. continued as the Academy's sponsor through the fiscal year.

The Academy operates under the direction of a five-member Board of Governors (the Board). The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy's one instructional/support facility staffed by 33 full-time teaching personnel who provided services to 625 FTE students.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. The Academy uses enterprise accounting to maintain its financial records. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

Measurement Focus and Basis of Accounting

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

Basis of Accounting

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

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

Hamilton County Mathematics and Science Academy

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

Expenses are recognized at the time they are incurred.

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not prescribe a formal budgetary process for the Academy; therefore, no budgetary information is presented in the financial statements.

Cash and Cash Equivalents

All monies received by the Academy are maintained in demand deposit accounts. For internal accounting purposes, the Academy segregates its cash into separate funds. Total cash is presented as “cash and cash equivalents” on the accompanying statement of net position.

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. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Building	40 years
Building improvements	15 years
Equipment	5 years

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, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes represents amounts restricted for federal and state grant programs. The Academy first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Hamilton County Mathematics and Science Academy

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the Academy. For the Academy, these revenues are primarily foundation payments and certain charges to students recorded as tuition and fees or charges for services. Operating expenses are necessary costs incurred to provide the goods or services that occur in carrying out the primary activity of the Academy, including depreciation.

Nonoperating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various intergovernmental grants, interest revenue and interest expense comprise the nonoperating revenues and expenses of the Academy.

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, 2016, including:

Wages Payable – Salary payments made after year-end that were for services rendered in fiscal year 2016. Teaching personnel are paid in 24 equal installments, ending with the first pay period in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2016 for all salary payments made to teaching personnel during the months of July and beginning of August 2016.

Intergovernmental payable – Payments made for the employer's share of the retirement contributions (\$29,639), associated with services rendered during fiscal year 2016, but that were not paid until the subsequent fiscal year are the major expense in this category.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy reports deferred outflows of resources in the statement of net position for amounts related to pensions, which will be further discussed in note 7.

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

In addition to liabilities, the statement of net position will sometimes 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 amounts related to pensions, which will be further discussed in note 7.

Note 3 - Deposits

At June 30, 2016, the carrying amount of the Academy's deposits was \$108,050 and the bank balance was \$128,928. The entire bank balance was covered by the Federal Depository Insurance Corporation (FDIC).

Note 4 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016:

	Balance 6/30/15	Additions	Deletions	Balance 6/30/16
<i>Capital assets not being depreciated:</i>				
Land	\$180,000	\$0	\$0	\$180,000
Total capital assets not being depreciated	180,000	0	0	180,000
<i>Capital assets being depreciated:</i>				
Building	1,643,937	5,305	0	1,649,242
Building improvements	447,139	42,446	0	489,585
Equipment	459,703	13,727	0	473,430
Total capital assets being depreciated	2,550,779	61,478	0	2,612,257
<i>Less accumulated depreciation</i>				
Building	(246,589)	(41,098)	0	(287,687)
Building improvements	(95,099)	(31,257)	0	(126,356)
Equipment	(343,276)	(34,869)	0	(378,145)
Total accumulated depreciation	(684,964)	(107,224)	0	(792,188)
Total capital assets being depreciated, net	1,865,815	(45,746)	0	1,820,069
Total capital assets, net	\$2,045,815	(\$45,746)	\$0	\$2,000,069

Note 5 - Receivables

Receivables at June 30, 2016 primarily consist of intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered collectible in full. A summary of the principal items of receivables follows:

Due from SERS	\$2,301
Title VI-B Grant	74,092
Title I Grant	153,572
Title II-A Grant	33,092
Total	<u>\$263,057</u>

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Note 6 – Risk Management

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. For fiscal year 2016, the Academy contracted with Philadelphia Insurance Company for general liability coverage of \$3 million, automobile liability coverage of \$1 million, and umbrella coverage of \$2 million.

There has been no significant reductions in insurance coverage from the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

Worker’s Compensation

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

Note 7 – Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Hamilton County Mathematics and Science Academy

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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 years 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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy’s contractually required contribution to SERS was \$99,084 for fiscal year 2016.

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 website at www.strsoh.org.

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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 was 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 increased 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 service. 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 July 1, 2015, and will increase one percent on July 1, 2016 when it reaches 14 percent. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 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 2016 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$272,551 for fiscal year 2016.

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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, 2015, 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	\$1,223,880	\$4,818,060	\$6,041,940
Proportion of the Net Pension Liability	0.02144864%	0.01743332%	
Pension Expense	\$83,184	\$273,676	\$356,860

At June 30, 2016, 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>
<i>Deferred Outflows of Resources</i>			
Differences between expected and actual experience	\$18,858	\$215,070	\$233,928
Changes in proportion and differences between Academy contributions and proportionate share of contributions and proportionate share of contributions Academy contributions subsequent to the measurement date	117,065	591,826	708,891
	<u>99,084</u>	<u>272,551</u>	<u>371,635</u>
Total Deferred Outflows of Resources	<u>\$235,007</u>	<u>\$1,079,447</u>	<u>\$1,314,454</u>
<i>Deferred Inflows of Resources</i>			
Net difference between projected and actual earnings on pension plan investments	\$24,326	\$258,649	\$282,975
Changes in proportion and differences between Academy contributions and proportionate share of contributions	828	12,835	13,663
Total Deferred Inflows of Resources	<u>\$25,154</u>	<u>\$271,484</u>	<u>\$296,638</u>

\$371,635 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	\$27,518	\$93,246	\$120,764
2017	27,518	93,246	120,764
2018	27,444	93,243	120,687
2019	<u>28,289</u>	<u>255,677</u>	<u>283,966</u>
Total	<u>\$110,769</u>	<u>\$535,412</u>	<u>\$646,181</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, 2015, 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.

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 earnings 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% Increase (8.75%)</u>
Academy's proportionate share of the net pension liability	\$1,697,082	\$1,223,880	\$825,405

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015 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.

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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, 2015 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><u>100.00 %</u></u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015. 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, 2015.

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:

Hamilton County Mathematics and Science Academy

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Academy's proportionate share of the net pension liability	\$6,692,648	\$4,818,060	\$3,232,815

Note 8 – Postemployment Benefits

School Employees Retirement System

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

Health Care Plan

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

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocation was 0 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2 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 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ending June 30, 2016, 2015, and 2014 were \$8,257, \$5,264, and \$808, respectively.

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

The financial report of SERS' Health Care plan is included in its comprehensive annual financial report. The report can be obtained on SERS' website at www.ohsers.org under employers/audit resources.

State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and Defined Contribution Plan.

Hamilton County Mathematics and Science Academy

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent comprehensive annual financial report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 0 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2016 and 2015. For the year ended June 30, 2014, 1 percent of covered payroll was allocated to post-employment health care. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the Academy, these amounts equaled \$0, \$0, and \$16,760, for fiscal years 2016, 2015 and 2014, respectively.

Note 9 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Governors. Administrators and classified staff earn up to ten days of vacation per year, depending upon the position, schedule hours, and length of service.

Each full-time employee receives three personal days per calendar year. Personal days not used at the end of the calendar year are lost.

Each full-time employee can earn sick leave up to a maximum of 15 days.

Insurance Benefits

The Academy provides health and life insurance to all employees through a private carrier.

Note 10 - Long-Term Obligations

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

	Principal Outstanding			Principal Outstanding	Amount Due Within
	6/30/15	Additions	Reductions	6/30/16	One Year
Mortgage Loan-PNC Bank	\$1,224,941	\$0	(\$1,224,941)	\$0	\$0
Commercial Note-Fifth Third Bank	24,997	0	(24,997)	0	0
Promissory Note-Foundation Bank	0	1,220,000	(33,684)	1,186,316	59,837
Net Pension Liability	4,559,388	1,482,552	0	6,041,940	0
Total	\$5,809,326	\$2,702,552	(\$1,283,622)	\$7,228,256	\$59,837

The Academy purchased a building (located at 2675 Civic Center Drive, Cincinnati, Ohio) in March 2010 for \$1,800,000 through PNC Bank with a \$1,440,000 mortgage, 60 month note at 6% containing a balloon payment in March 2015. The Academy received extensions on the loan until it was able to refinance it in November 2015.

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

During fiscal year 2012, the Academy entered into a commercial loan/revolving note arrangement with Fifth Third Bank for \$50,000. Terms are for a floating interest rate per annum equal to a certain percentage over the prime rate not to be less than 4.25%. The Academy refinanced this note in November 2015.

On November 12, 2015, the Academy signed a promissory note with Foundation Bank to refinance existing loans and notes. The note was issued for \$1,220,000 at a fixed interest rate of 4.5%. Commencing on December 12, 2015, the Academy was required to make monthly principal and interest payments of approximately \$9,333 for 46 months with a balloon payment due on November 12, 2020. This note is secured by a mortgage on the Academy's building.

Principal and interest obligations on the promissory note are as follows:

Fiscal Year Ended June 30,	Principal	Interest
2017	\$59,837	\$52,159
2018	62,585	49,411
2019	65,459	46,537
2020	68,467	43,529
2021	929,968	17,215
Total	<u>\$1,186,316</u>	<u>\$208,851</u>

Obligations related to employee compensation will be paid from the program benefitting from their service.

Note 11 - Contingencies

Litigation

The Academy is not currently party to litigation.

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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2016.

State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure community schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of the fiscal year 2016 review resulted in the Academy owing \$4,080 to the Ohio Department of Education. This amount has been reported as an intergovernmental payable in the accompanying financial statements.

Hamilton County Mathematics and Science Academy

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Note 12 – Purchased Services

For the fiscal year ended June 30, 2016, purchased services expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$317,342
Property Services	169,678
Communications	47,690
Utilities	80,972
Food Service	251,674
Other	85,594
Total Purchased Services	<u>\$952,950</u>

Note 13 – Subsequent Event

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Academy's net pension liability is expected to be significant.

Hamilton County Mathematics and Science Academy
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

	2013	2014	2015
<i>State Teachers Retirement System</i>			
Academy's proportion of the net pension liability	0.01483001%	0.01483001%	0.01743332%
Academy's proportionate share of the net pension liability	\$4,296,840	\$3,607,172	\$4,818,060
Academy's covered-employee payroll	\$1,644,046	\$1,556,246	\$1,876,436
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.36%	231.79%	256.77%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	74.71%	72.10%
<i>School Employees Retirement System</i>			
Academy's proportion of the net pension liability	0.01881499%	0.01881499%	0.02144864%
Academy's proportionate share of the net pension liability	\$1,118,867	\$952,216	\$1,223,880
Academy's covered-employee payroll	\$585,036	\$539,827	\$642,003
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	191.25%	176.39%	190.63%
Plan fiduciary net position as a percentage of the total pension liability	65.52%	71.70%	69.16%

(1) Information prior to 2013 is not available.

Amounts presented are as of the Academy's measurement date which is the prior fiscal year end.

Hamilton County Mathematics and Science Academy
Required Supplementary Information
Schedule of Academy Contributions
Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<i>State Teachers Retirement System</i>										
Contractually required contribution	\$120,837	\$173,000	\$137,868	\$177,925	\$228,408	\$204,028	\$213,726	\$202,312	\$262,701	\$272,551
Contributions in relation to the contractually required contribution	120,837	173,000	137,868	177,925	228,408	204,028	213,726	202,312	262,701	272,551
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Academy's covered-employee payroll	\$929,515	\$1,330,769	\$1,060,523	\$1,368,654	\$1,756,985	\$1,569,446	\$1,644,046	\$1,556,246	\$1,876,436	\$1,946,793
Contributions as a percentage of covered-employee payroll	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	14.00%	14.00%
<i>School Employees Retirement System</i>										
Contractually required contribution	\$68,271	\$80,655	\$63,076	\$65,027	\$67,332	\$74,082	\$80,969	\$74,820	\$84,616	\$99,084
Contributions in relation to the contractually required contribution	68,271	80,655	63,076	65,027	67,332	74,082	80,969	74,820	84,616	99,084
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Academy's covered-employee payroll	\$493,288	\$582,767	\$455,751	\$469,848	\$486,503	\$535,275	\$585,036	\$539,827	\$642,003	\$707,743
Contributions as a percentage of covered-employee payroll	13.84%	13.84%	13.84%	13.84%	13.84%	13.84%	13.84%	13.86%	13.18%	14.00%



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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*

Hamilton County Mathematics and Science Academy
Hamilton County
2675 Civic Center Drive
Cincinnati, Ohio 45231

To the Board of Governors:

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 Hamilton County Mathematics and Science Academy, Hamilton County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hamilton County Mathematics and Science Academy's basic financial statements and have issued our report thereon dated February 16, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Hamilton County Mathematics and Science 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 Hamilton County Mathematics and Science 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 Hamilton County Mathematics and Science 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

Board of Governors
Hamilton County Mathematics and Science Academy

Compliance and Other Matters

As part of reasonably assuring whether the Hamilton County Mathematics and Science 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2016-001.

Hamilton County Mathematics and Science Academy's Response to Finding

The Hamilton County Mathematics and Science Academy's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Hamilton County Mathematics and Science Academy's response and, accordingly, we express no opinion on it.

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 Hamilton County Mathematics and Science Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Hamilton County Mathematics and Science Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
February 16, 2017

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2016-001

Noncompliance and Material Weakness - Maintenance of Accounting System

Ohio Admin. Code § 117-2-02(A), states, in part, all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Academy utilized the Uniform School Account System for financial purposes. The Treasurer posted summarized activity to the accounting system monthly, rather than by individual transaction. Documentation was maintained by individual transaction; however, since the reports contained summarized data it became increasingly difficult to identify individual transactions for audit purposes. Furthermore, the summarized information was sometimes entered months after-the-fact, thus postponing the completion of the financial report.

By not posting individual transactions, the Academy is not utilizing the full potential of its accounting system. Entering activity at a more detailed level would allow the Academy to provide its Board of Governors and management more detailed reports, more timely complete its annual financial report, and facilitate the completion of the audit.

We recommend the Academy begin processing and recording all revenues and expenses individually. Transactions should also be entered into the accounting system on a more frequent basis.

Client Response: The Academy will work to timely enter transactions into its accounting system at a more detailed level.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u>
2015-001	<u>Material Weakness - Debt</u> - The Academy did not properly classify the refinance of their mortgage as current and noncurrent liabilities at June 30, 2015.	Yes	N/A
2015-002	<u>Noncompliance</u> - Per Ohio Revised Code Section 117.38, entities filing on a GAAP-basis must file annual reports within 150 days of their fiscal year end. The Academy consults with a firm to prepare its financial statements; however, the final documentation to complete that process was not received until April 12, 2016, four months beyond the deadline for filing the financial report with the Auditor of State's Office.	No	Repeated in the Management Letter

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Dave Yost • Auditor of State

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY

HAMILTON 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
MAY 18, 2017**