HORIZON SCIENCE ACADEMY OF CINCINNATI
HAMILTON COUNTY, OHIO

(AUDITED)

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2017

BEGMURAT NEPESOV, TREASURER

Dave Yost • Auditor of State

Board of Directors
Horizon Science Academy of Cincinnati
1055 Laidlaw Avenue
Cincinnati, Ohio 45237

We have reviewed the *Independent Auditor's Report* of the Horizon Science Academy of Cincinnati, Hamilton County, prepared by Julian & Grube, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Horizon Science Academy of Cincinnati is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

March 29, 2018

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HORIZON SCIENCE ACADEMY OF CINCINNATI
HAMILTON COUNTY, OHIO

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Julian & Grube, Inc.
Serving Ohio Local Governments
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Independent Auditor's Report

Horizon Science Academy of Cincinnati
Hamilton County
1055 Laidlaw Avenue
Cincinnati, Ohio 45237

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Horizon Science Academy of Cincinnati, Hamilton County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Horizon Science Academy of Cincinnati's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Horizon Science Academy of Cincinnati's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Horizon Science Academy of Cincinnati'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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy of Cincinnati, Hamilton County, Ohio, as of June 30, 2017, and the changes in financial position thereof and cash flows thereof 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 December 21, 2017, on our consideration of the Horizon Science Academy of Cincinnati’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Horizon Science Academy of Cincinnati’s internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 21, 2017

The discussion and analysis of Horizon Science Academy Cincinnati's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2017. Readers should also review the financial statements and notes to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- Total assets were $360,373.
- Total liabilities were $ 4,725,377.
- Total net position increased by $99,289.

Using this Financial Report

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows.

Reporting the Academy as a Whole

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

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

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

Table 1 provides a comparison of net position as of June 30, 2017 with net position as of June 30, 2016.

Table 1

Net Position

	2017	**2016**
Assets		
Current and Other Assets	$245,422	$181,465
Capital Assets, Net	114,951	198,017
Total Assets	**360,373**	**379,482**
Deferred Outflows of Resources	**781,175**	**432,763**
Liabilities		
Current Liabilities	153,479	169,543
Non-Current Liabilities	4,571,898	4,844,036
Total Liabilities	**4,725,377**	**5,013,579**
Deferred Inflows of Resources	**925,002**	**406,785**
Net Position		
Invested in Capital Assets	109,986	189,741
Unrestricted	(4,618,816)	(4,797,860)
Total Net Position	**($4,508,830)**	**($4,608,119)**

During fiscal year 2017, 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 standards required by GASB 68, the net pension liability equals the Academy's proportionate share of each plan's collective:

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

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

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

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

In conclusion, the application of GASB Statement No. 68 requires the reader to perform additional calculations to determine the Academy's total net position at June 30, 2017 without the implementation of GASB Statement No. 68. This is an important exercise, as the State Pension Systems (STRS & SERS) collect, hold and distributes pensions to our employees, not the Academy. These calculations are as follows:

Table 1: Total Net Position (with GASB 68)	$(4,508,831)
GASB 68 Calculations:	
Add Deferred Inflows related to Pension	925,002
Add Net Pension Liability	4,725,377
Less Deferred Outflows related to Pension	(781,175)
Total Net Position (without GASB 68)	$ 360,373

Total current assets increased by $63,957. This increase is due to increases in cash and cash equivalents of $118,862 and decrease in intergovernmental receivable of $40,592 and decrease in other prepaid items of $14,313. Capital assets decreased by $83,066 due to current year depreciation. Total liabilities decreased $288,202 primarily due to a decrease in the net pension liability of $272,138.

Table 2 shows the changes in net position for the fiscal years 2017 and 2016.

Table 2

Horizon Science Academy Cincinnati
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended June 30,2017

	June 30,2017	June 30,2016*
OPERATING REVENUES:		
Foundation payments	$2,413,206	$2,463,365
Classroom fees	465	1,764
Extracurricular activities	3,211	2,447
Other revenue	31,273	87,363
Total operating revenues	**2,448,155**	**2,554,939**
OPERATING EXPENSES:		
Salaries	1,417,112	1,456,945
Fringe benefits	318,969	398,388
Purchased services	1,399,418	1,367,874
Materials and supplies	108,868	194,849
Depreciation	89,075	122,777
Miscellaneous	84,013	80,032
Total operating expenses	**3,417,455**	**3,620,865**
Operating loss	**(969,299)**	**(1,065,926)**
NON-OPERATING REVENUES (EXPENSES):		
Restricted grants in aid - federal	668,086	798,894
State and other grants	86,539	74,593
Donated management fee	313,963	210,349
Total non-operating revenues (expenses)	**1,068,588**	**1,083,836**
Change in net position	99,288	17,910
Net position, beginning of year - as restated	(4,608,119)	(4,626,029)
Net position, end of year	**($4,508,830)**	**($4,608,119)**

* As restated

Foundation support decreased $50,159 primarily due to a decrease in enrollment. Federal grants decreased in the amount of $130,808. Salaries and benefits decreased $119,252 due to the recognition of pension expense resulting from an increase in the net pension liability and related deferred inflows and deferred outflows related to pension. Purchased services increased $31,544.

Foundation support is the primary support of the Academy, comprising 99% of operating revenue and 69% of total revenues. The Academy also received a significant portion of federal grants, which represent 19% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 51% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 41%. Net position increased by $99,288.

Capital Assets

At the end of fiscal year 2017 the Academy had $439,733 invested in furniture, equipment, and vehicles, ($114,951 net of accumulated depreciation). Table 3 shows activity for fiscal year 2017:

Table 3

Capital Assets

	Balance July 1, 2016	Additions	Deletions	Ending June 30, 2017
Capital Assets, Being Depreciated:				
Improvements	$49,275	$0	$0	$49,275
Equipment Instructional	133,048	6,009	(31,994)	107,063
Equipment Office	273,463	0	0	273,463
School Vehicle	9,932	0	0	9,932
Total Capital Assets	**465,718**	**6,009**	**(31,994)**	**439,733**
Less: Accumulated Depreciation	(267,701)	(89,075)	31,994	(324,782)
Net Fixed Assets	**$198,017**	**($83,066)**	**$0**	**$114,951**

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

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Begmurat Nepesov, Treasurer, Horizon Science Academy - Cincinnati, 1055 Laidlaw Ave. Cincinnati, OH 45237.

Horizon Science Academy Cincinnati
Statement of Net Position
For the Fiscal Year Ended June 30,2017

<u>ASSETS:</u>	
Current Assets:	
Cash and cash equivalents	$161,409
Other prepaid items	84,013
Total current assets	245,422
Noncurrent Assets:	
Depreciable capital assets, net	114,951
Total Noncurrent Assets	114,951
Total Assets	**360,373**
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Pensions:	
Pension - STRS	739,822
Pension - SERS	41,353
Total Deferred Outflows of Resources	**781,175**
<u>LIABILITIES:</u>	
Current Liabilities:	
Accounts payable	9,153
Accrued wages and benefits payable	133,649
Intergovernmental payable	5,711
Capital Lease	4,966
Total current liabilities	153,479
Noncurrent Liabilities:	
Net pension liability	4,571,898
Total noncurrent liabilities	4,571,898
Total Liabilities	**4,725,377**
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Pensions:	
Pension - STRS	876,012
Pension - SERS	48,990
Total Deferred Inflows of Resources	**925,002**
<u>NET POSITION:</u>	
Net investment in capital assets	109,985
Unrestricted	(4,618,816)
Total Net Position	**($4,508,831)**

See accompanying notes to the basic financial statements.

Horizon Science Academy Cincinnati
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30,2017

OPERATING REVENUES:	
Foundation payments	$2,413,206
Classroom fees	465
Extracurricular activities	3,211
Other revenue	31,273
Total operating revenues	**2,448,155**
OPERATING EXPENSES:	
Salaries	1,417,112
Fringe benefits	318,969
Purchased services	1,399,418
Materials and supplies	108,868
Depreciation	89,075
Miscellaneous	84,013
Total operating expenses	**3,417,455**
Operating loss	**(969,300)**
NON-OPERATING REVENUES:	
Restricted grants in aid - federal	668,086
State and other grants	86,539
Donated management fee	313,963
Total non-operating revenues	**1,068,588**
Change in net position	99,288
Net position, beginning of year	(4,608,119)
Net position, end of year	**($4,508,831)**

See accompanying notes to the basic financial statements.

Horizon Science Academy Cincinnati
Statement of Cash Flows
For the Fiscal Year Ended June 30,2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	$2,457,894
Cash received from other operating revenues	34,949
Cash payments to suppliers for goods and services	(1,195,944)
Cash payments to employees for services and benefits	(1,839,330)
Other cash payments	(84,013)
Net cash used for operating activities	**(626,444)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	668,086
State and other grants received	86,539
Net cash provided by noncapital financing activities	**754,625**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on capital lease payable	(3,311)
Payment for capital acquisitions	(6,009)
Net cash used for capital and related financing activities	**(9,320)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Net increase in cash and cash equivalents	118,862
Cash and cash equivalents at beginning of year	42,547
Cash and cash equivalents at end of year	**$161,409**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	($969,300)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Depreciation	89,075
Donated management fee	313,963
Changes in Assets and Liabilities:	
Decrease in other prepaid items	14,313
(Decrease) in accounts payable	(15,934)
Decrease in intergovernmental receivable	40,592
(Decrease) in accrued wages and benefits payable	(916)
Increase in intergovernmental payable	4,096
Increase in deferred inflows of resources	518,217
(Increase) in deferred outflows of resources	(348,412)
(Decrease) in net pension liability	(272,138)
Total adjustments	**342,856**
Net cash used for operating activities	**($626,444)**
NONCASH TRANSACTIONS:	
Donated management fee	$313,963

See accompanying notes to the basic financial statements.

1. DESCRIPTION OF THE ACADEDMY AND REPORTING ENTITY

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

The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy is currently under contract for operation with the Educational Service Center of Lake Erie West (the Sponsor) for a period of five years commencing July 1, 2011 and ending on June 30, 2016. The contract has been extended through June 30, 2019.

The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which includes, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. In fiscal year 2017, the Academy employed 36 personnel for up to 323 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and all liabilities and deferred inflows of resources associated with the operation of the Academy are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Change in Net Positions present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

C. Budgetary Process

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 Section 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

D. Cash

To improve cash management, all cash received by the Academy is pooled in a central bank account. Total cash amount at the end of the fiscal year is presented as “Cash and cash equivalents” in the Statement of Net Position. For the purposes of the Statement of Cash Flows and for presentation on the Statement of Net Position, any investment with an original maturity date less than 90 days is considered a cash equivalent and any investment with a maturity date greater than 90 days is considered an investment. The Academy did not have any investments during fiscal year 2017.

E. Capital Assets and Depreciation

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

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

	Useful Life
Improvements	5 to 10 years
Equipment Office	5 to 10 years
Equipment Instructional	3 to 5 years
Vehicles	3 to 10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Operating Revenues and Expenses

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

H. Compensated Absences

The Academy’s policy indicates that all full-time employees are entitled to eight days of sick/personal leave in a school year. Also, Full time employees who have worked for the Academy for a total of 200 or more days during the contract year will be allowed nine days of paid sick or personal leave. Full time employees who have worked for the Academy 210 or more days during the contract year will be allowed ten days of paid sick or personal leave. All leave earned by employees must be used within the current school year and cannot be transferred to the next school year, and therefore, are not recorded as a liability. The Academy compensates its employees $125 per day for each unused sick/personal day at the end of the year.

I. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. At the end of the fiscal ended June 30, 2017, the Academy did not have any restricted net position.

J. Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Deferred Outflows of Resources and Deferred Inflows of Resources

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

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources relate to the Academy's net pension liability.

L. Pensions

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

M. Prepayments

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

3. CHANGE IN ACCOUNTING PRINCIPLES

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

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

3. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

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

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

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

4. DEPOSITS

As of June 30, 2017, the Academy’s Fifth Third bank balance of $242,324 was either covered by FDIC or collateralized by the financial institution’s public entity deposit pool in the manner described below.

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

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows. Beginning balances have been reclassified to correctly state asset balances between asset classes. There was no effect on net position.

Capital Assets	Balance July 1, 2016	Additions	Deletions	Ending June 30, 2017
Capital Assets, Being Depreciated:				
Improvements	$49,275	$0	$0	$49,275
Equipment Instructional	133,048	6,009	(31,994)	107,063
Equipment Office	273,463	0	0	273,463
School Vehicle	9,932	0	0	9,932
Total Capital Assets	**465,718**	**6,009**	**(31,994)**	**439,733**
Less: Accumulated Depreciation	(267,701)	(89,075)	31,994	(324,782)
Net Fixed Assets	**$198,017**	**($83,066)**	**$0**	**$114,951**

6. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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.

6. DEFINED BENEFIT PENSION PLANS (Continued)

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 payable* 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.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	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, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was $12,005 for fiscal year 2017. Of this amount, $949 is reported as accrued wages and benefits payable.

6. DEFINED BENEFIT PENSION PLANS (Continued)

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 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.

6. DEFINED BENEFIT PENSION PLANS (Continued)

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

The Academy's contractually required contribution to STRS was $186,542 for fiscal year 2017. Of this amount, $15,196 is reported as accrued wages and benefits payable.

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

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

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.002696300%	0.016970620%	
Proportion of the net pension liability current measurement date	0.002464000%	0.013119690%	
Change in proportionate share	-0.00023230%	-0.00385093%	
Proportionate share of the net pension liability	$ 180,342	$ 4,391,556	$ 4,571,898
Pension expense	$ (12,001)	$ 108,215	$ 96,214

At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 2,432	$ 177,442	$ 179,874
Net difference between projected and actual earnings on pension plan investments	14,877	364,616	379,493
Changes of assumptions	12,039		12,039
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share		11,222	11,222
Academy contributions subsequent to the measurement date	12,005	186,542	198,547
Total deferred outflows of resources	$ 41,353	$ 739,822	$ 781,175
Deferred inflows of resources			
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	$ 48,990	$ 876,012	$ 925,002
Total deferred inflows of resources	$ 48,990	$ 876,012	$ 925,002

6. DEFINED BENEFIT PENSION PLANS (Continued)

$198,547 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	$ (14,644)	$ (129,439)	$ (144,083)
2019	(14,654)	(129,439)	(144,093)
2020	5,378	10,475	15,853
2021	4,278	(74,329)	(70,051)
Total	$ (19,642)	$ (322,732)	$ (342,374)

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

6. DEFINED BENEFIT PENSION PLANS (Continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

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

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

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

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

Discount Rate **-** The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

6. DEFINED BENEFIT PENSION PLANS (Continued)

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	$ 238,762	$ 180,342	$ 131,442

Actuarial Assumptions - STRS

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

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

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

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

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

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

6. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$ 5,836,021	$ 4,391,556	$ 3,173,064

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

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

7. POSTEMPLOYMENT BENEFITS (Continued)

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, 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 2017, none of the employer contribution 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 2017, this amount was $23,500. 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 2017, the Academy's surcharge obligation was $1,403.

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $1,403, $2,746, and $3,462, respectively. The fiscal year 2017 amount has been reported as accrued wages and benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

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

Funding Policy - Ohio law 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 Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Academy did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

8. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Academy contracted with The Hanover Insurance Company for property and general liability insurance with a $1,000,000 single occurrence limit and $3,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage in any of the last three fiscal years.

B. Workers Compensation

The Academy pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. 100% of this premium was paid for during fiscal year 2017.

9. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

10. PURCHASED SERVICES

Purchased service expenses during fiscal year 2017 were as follows:

Purchased Services

Type	Amount
Professional Services	$841,103
Rent and Property Services	508,522
Admin Travel	24,638
Advertising and Communications	25,155
Total	**$1,399,418**

11. CAPITAL LEASES

In a prior fiscal year, the Academy entered into a capitalized lease agreement for a van. The lease meets the criteria of a capital lease as defined by accounting principles generally accepted in the United States, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases were recorded at the present value of the future minimum lease payments as of the inception date. Capital assets consisting of vehicles have been capitalized in the amount of $9,932. At June 30, 2017, accumulated depreciation was $4,966, leaving a book value of $4,966.

The following is a schedule of the future minimum lease payments required for the capital lease as of June 30, 2017:

Fiscal Year Ending June 30,	
2018	3,311
2019	1,654
Present Value of Minimum Lease Payments	$4,966

12. OPERATING LEASES

On July 1, 2005, the Academy entered into a lease agreement with Breeze Inc., a subsidiary of New Plan Learning which is a non-profit organization established to acquire and manage school facilities for community schools, for the facilities located at 1055 Laidlaw Ave. Cincinnati, OH 45237 for five years. In June 2007, the agreement was extended for another five years until 2015. In December 2014, a new lease agreement was signed with New Plan Learning. The Academy paid a total of $366,666 to Breeze, Inc. during fiscal year 2017 on the lease agreement.

13. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2017, the Academy received grants from State and Federal agencies total of $754,625.

B. Ohio Department of Education Enrollment Review

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

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

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the Academy.

In addition, the Academy’s contracts with Educational Service Center of Lake Erie West and Concept Schools require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the Academy.

14. SPONSORSHIP AGREEMENT

On July 1, 2004, the Academy signed a sponsorship agreement with Lucas County Educational Services. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In June 2011 the original contract was extended until June 30, 2016. The contract has been extended again in 2016 until June 30, 2019. Effective January 1, 2012, Lucas County Educational Service Center changed their name to Educational Service Center of Lake Erie West. According to the contract, the Academy pays 2% of its foundation revenues to the Sponsor. In fiscal year 2017, the Academy's compensation to the Sponsor was $49,032.

15. MANAGEMENT COMPANY AGREEMENT

The Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one-year terms unless the Academy or the management company decides otherwise. The management contract was amended in fiscal year 2017. According to amended terms, the School shall automatically transfer ten percent (10%) of the funds received from the State when such funds are immediately available in the School's accounts. In fiscal year 2017, the Academy repaid $23,359 to Concept Schools balance from fiscal year 2016. The fiscal year 2017 management fee balance of $313,963 was forgiven by Concept Schools, and is reflected in the Statement of Revenues, Expenses and Changes in Net Position as donated management fee.

16. RELATED PARTIES

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

REQUIRED SUPPLEMENTARY INFORMATION

HORIZON SCIENCE ACADEMY CINCINNATI
HAMILTON COUNTY

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS (1)

	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.00246400%	0.00269630%	0.00419200%	0.00419200%
Academy's proportionate share of the net pension liability	$ 180,342	$ 153,853	$ 212,155	$ 249,285
Academy's covered payroll	$ 75,607	$ 81,168	$ 121,818	$ 88,143
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	238.53%	189.55%	174.16%	282.82%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

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

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

HORIZON SCIENCE ACADEMY CINCINNATI
HAMILTON COUNTY

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS (1)

	2017	**2016**	**2015**	**2014**
Academy's proportion of the net pension liability	0.01311969%	0.01697062%	0.01690520%	0.01690520%
Academy's proportionate share of the net pension liability	$ 4,391,556	$ 4,690,183	$ 4,111,930	$ 4,898,104
Academy's covered payroll	$ 1,361,107	$ 1,770,600	$ 1,727,246	$ 1,789,308
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	322.65%	264.89%	238.06%	273.74%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

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

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

HORIZON SCIENCE ACADEMY CINCINNATI
HAMILTON COUNTY

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ACADEMY CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013
Contractually required contribution	$ 12,005	$ 10,585	$ 10,698	$ 16,884	$ 12,199
Contributions in relation to the contractually required contribution	(12,005)	(10,585)	(10,698)	(16,884)	(12,199)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Academy's covered payroll	$ 85,750	$ 75,607	$ 81,168	$ 121,818	$ 88,143
Contributions as a percentage of covered payroll	14.00%	14.00%	13.18%	13.86%	13.84%

	2012	2011	2010	2009	2008
Contractually required contribution	$ 16,335	$ 20,577	$ 20,635	$ 20,788	$ 15,624
Contributions in relation to the contractually required contribution	(16,335)	(20,577)	(20,635)	(20,788)	(15,624)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Academy's covered payroll	$ 121,450	$ 163,699	$ 152,400	$ 211,260	$ 159,104
Contributions as a percentage of covered payroll	13.45%	12.57%	13.54%	9.84%	9.82%

HORIZON SCIENCE ACADEMY CINCINNATI
HAMILTON COUNTY

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ACADEMY CONTRIBUTIONS
SCHOOL TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013
Contractually required contribution	$ 186,542	$ 190,555	$ 247,884	$ 224,542	$ 232,610
Contributions in relation to the contractually required contribution	(186,542)	(190,555)	(247,884)	(224,542)	(232,610)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Academy's covered-employee payroll	$ 1,332,443	$ 1,361,107	$ 1,770,600	$ 1,727,246	$ 1,789,308
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	13.00%	13.00%

	2012	2011	2010	2009	2008
Contractually required contribution	$ 201,170	$ 172,516	$ 167,829	$ 144,448	$ 94,936
Contributions in relation to the contractually required contribution	(201,170)	(172,516)	(167,829)	(144,448)	(94,936)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Academy's covered payroll	$ 1,547,462	$ 1,327,046	$ 1,290,992	$ 1,111,138	$ 730,277
Contributions as a percentage of covered payroll	13.00%	13.00%	13.00%	13.00%	13.00%

HORIZON SCIENCE ACADEMY CINCINNATI
HAMILTON COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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

Horizon Science Academy of Cincinnati
Hamilton County
1055 Laidlaw Avenue
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Horizon Science Academy of Cincinnati, Hamilton County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Horizon Science Academy of Cincinnati's basic financial statements and have issued our report thereon dated December 21, 2017.

Internal Control Over Financial Reporting

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

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

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

Board of Directors
Horizon Science Academy of Cincinnati

Compliance and Other Matters

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

Purpose of this Report

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

Julian & Grube, Inc.

Julian &Grube, Inc.
December 21, 2017

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Dave Yost · Auditor of State

HORIZON SCIENCE ACADEMY CINCINNATI

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
APRIL 17, 2018

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